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**NAVAL
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MONTEREY, CALIFORNIA

THESIS

**ENERGY SECURITY STRATEGIES: AN ANALYSIS OF
TANZANIA AND MOZAMBIQUE**

by

Amy Roznowski

June 2016

Thesis Advisor:
Second Reader:

Jessica Piombo
Rachel Sigman

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**ENERGY SECURITY STRATEGIES: AN ANALYSIS OF TANZANIA AND
MOZAMBIQUE**

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
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ABSTRACT

Energy security is increasingly becoming a major focus in the world today. For developing countries, energy security is limited by lack of access to resources and critical infrastructure. Recent natural gas discoveries in Sub-Saharan Africa are creating energy development opportunities. At the same time, the increased global interest is forcing developing countries to choose an energy strategy that either prioritizes domestic consumption or export of energy resources. The strategy a government chooses affects the overall energy security of that country.

This thesis seeks to explain why countries pursue energy strategies that focus on domestic consumption of indigenous energy resources instead of export. To answer this question, case studies of the energy sectors of Tanzania and Mozambique analyze the factors influencing the choice of energy strategy.

This thesis finds that the primary factors influencing energy strategy choice are political party competition, the country's economic strategy, and international relationships. Analysis of the case studies indicates that the combination of political elite cohesion, economic reforms that favor the domestic energy market, and structuring the influence of international actors in policy development enables the development of the domestic energy sector.

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LIST OF ACRONYMS AND ABBREVIATIONS

CCM	Chama Cha Mapinduzi
CPI	Investment Promotion Center
CUF	Civic United Front
EAC	East African Community
EdM	Electricidade de Moçambique
EITI	Extractive Industries Transparency Initiative
ENH	Empresa Nacional de Hidrocarbonetos
FDI	foreign direct investment
FRELIMO	Mozambique Liberation Front
GDP	gross domestic product
GoM	Government of Mozambique
GoT	Government of Tanzania
HCB	Cahora Bassa Dam
IEA	International Energy Agency
IEC	International Energy Charter
IGO	international governmental organization
IOC	international oil company
IFI	international financial institution
ISI	import substitution industrialization
IPP	independent power producer
LCP	Local Content Policy
MCC	Millennium Challenge Corporation
MDM	Mozambique Democratic Movement
MEM	Ministry of Energy and Minerals
NIC	newly industrialized country
ODA	official development assistance
PPP	public-private partnership
PSA	Production Sharing Agreement
REA	Regional Energy Agency
RENAMO	Mozambican National Resistance

SADC	Southern African Development Community
SAPP	Southern African Power Pool
SME	small and medium-sized enterprises
TANU	Tanganyika African National Union
TEITI	Tanzania EITI
TPDC	Tanzania Petroleum Development Corporation

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I. INTRODUCTION

A. BACKGROUND

Thirty percent of the world's natural resource discoveries in the last 10 years occurred Sub-Saharan Africa. Countries like Ghana, Uganda, Kenya, Tanzania, and Mozambique join natural resource producers like Nigeria and Angola in the pursuit to balance growth and domestic energy security.¹ The purpose of this thesis is to explain why countries pursue energy strategies that focus on domestic consumption of energy resources instead of export. By analyzing the political context of energy resource development, the overarching economic strategy, and international relationships of Tanzania and Mozambique one can predict the pattern that leads to a strategy choice. The strategy a country chooses affects the domestic energy security of that country.

Tanzania and Mozambique have taken different approaches to energy security. Tanzania's decision makers promoted the domestic use of energy resources to enhance the country's energy security, and the success of the inward-focused energy strategy was a result of consistent and coherent policies that balanced the influence of energy sector elites and private interests.² Mozambique's response to its energy insecurity and recent natural gas discoveries has been to prioritize the export of energy. The outward-oriented energy strategy was established because the fractionalized political elites were more susceptible to external pressure to export energy and less responsive to domestic demand for energy.³

¹ "African Growth Among Discoveries of Natural Resources and Infrastructure Investments," Eni for Expo, accessed May 10, 2016, https://www.eni.com/it_EX/eni4expo/pages/eng/african-growth.html.

² Nicolas van de Walle, *African Economies and the Politics of Permanent Crisis, 1979–1999* (New York: Cambridge Univ. Press, 2001), 154.

³ Jason Sumich, "The Party and the State: Frelimo and Social Stratification in Post-Socialist Mozambique," *Development and Change* 41, no. 4 (July 2010): 693, 10.1111/j.1467-7660.2010.01653.x; Lindsay Whitfield and Alastair Fraser, "Negotiating Aid," in *The Politics of Aid: African Strategies for Dealing with Donors*, ed. Lindsay Whitfield (Oxford, NY: Oxford Univ. Press, 2009), 15–16; Lindsay Whitfield and Alastair Fraser, "Introduction: Aid and Sovereignty," in *The Politics of Aid: African Strategies for Dealing with Donors*, ed. Lindsay Whitfield (Oxford, NY: Oxford Univ. Press, 2009), xxxix.

In addition to the differing political dynamics that influenced the energy strategy in Tanzania and Mozambique, the macroeconomic strategies shaped the options available to each country. While both countries have attempted to transition to a market-oriented economy, Tanzania, unlike Mozambique, has implemented sub-sector policies that have increased the amount of local small- and medium-sized enterprises (SMEs) in the domestic energy market. Mozambique's economic strategy favored mega projects and large foreign investors that were focused on the export of energy resources, which inhibited the internal demand to develop the domestic energy supply.

For developing countries to progress out of poverty at the hands of natural resources, an economic and political framework must be in place to achieve a balance between access to energy, the environment, and sustainable growth. Enhancing energy security within developing countries is expected to reduce poverty, improve the quality of life, and allow for increased education opportunities. Connecting urban and rural areas to a power supply will also encourage a better investment environment. Capacity building to stabilize the economy through strengthening political and economic institutions is critical for sustained development. Foreign governments, private corporations, and international organizations promote and support the transparent reporting and monitoring of contracts, resource revenue, and investment, which foster social trust in state governments and state-run utilities.⁴

Access to reliable and affordable electricity through energy resource development is expected to break the poverty trap of many developing countries. Sub-Saharan Africa has abundant sources of energy, renewable and non-renewable; however, most countries depend on hydropower and biomass fuels (wood and charcoal), which are vulnerable to drought and deforestation.⁵ To achieve universal energy access by 2030 and further reduce poverty, Sub-Saharan Africa needs a generation capacity increase of 13% per year

⁴ "What Is the EITI?" Extractive Industries Transparency Initiative, accessed August 11, 2015, <https://eiti.org/eiti>.

⁵ Ogunlade R. Davidson, "Energy Issues in Sub-Saharan Africa: Future Directions," *Annual Review Energy Environment* 17 (1992), 361, doi: 10.1146/annurev.eg.17.110192.002043.

along with \$20B U.S. of investment each year specifically for electrification.⁶ New discoveries of energy resources will provide increased revenue but with more than 60% of the population living on less than \$2.50U.S. per day it remains difficult to afford electricity.⁷ The availability of energy resources in conjunction with improved infrastructure used for domestic power generation should help to create self-sufficient, energy secure countries that can fully capitalize on the energy resource export market.⁸

Challenged by similar energy deficits, Tanzania and Mozambique face the decision of choosing a strategy to develop their energy sectors.⁹ Both countries potentially stand at the forefront of the energy market with recent and vast resource discoveries. By comparing how each country's government controls access to resources, promotes privatization, and interacts with the international community, I argue that one can explain why a government would choose an inward or outward-oriented strategy to develop the energy sector.¹⁰ Being able to explain how governments chose an inward energy strategy could provide a policy framework for other resource rich countries as well as guidance on how to advise countries seeking to enhance their domestic energy security. From the analysis presented in this thesis, one can also determine the factors that lead governments to use natural resources sources for domestic consumption, thereby ensuring domestic energy security, or for international export, potentially leaving the domestic energy market vulnerable.

⁶ Morgan Brazilian et al., "Energy Access Scenarios to 2030 for the Power Sector in Sub-Saharan Africa," *Utilities Policy* 20, no. 1 (March 2012): 10, doi: 10.1016/j.jup.2011.11.002.

⁷ Africa Progress Panel, *Power People Planet: Seizing Africa's Energy and Climate Opportunities*, Africa Progress Report 2015 (Geneva: Africa Progress Panel, 2015), 12, <http://www.africaprogresspanel.org/publications/policy-papers/2015-africa-progress-report/>

⁸ Davidson, "Energy Issues in Sub-Saharan Africa," 363.

⁹ Christopher Helman, "The 10 Biggest Oil and Gas Discoveries of 2013," *Forbes*, July 8, 2014, <http://www.forbes.com/sites/christopherhelman/2014/01/08/the-10-biggest-oil-and-gas-discoveries-of-2013/>; Maria Berg, Marit Agasoster, and Erling Grammeltvedt. *Natural Gas in East Africa* (Norway: Department of Petroleum Engineering and Applied Geophysics, Norwegian University of Science and Technology, 2012), <http://www.ipt.ntnu.no/~jsg/undervisning/naturgass/oppgaver/Oppgaver2012/12Berg.pdf>.

¹⁰ Africa Progress Panel, *Power People Planet*, 115.

Enhancing energy security for developing countries is more than securing investment through global energy demand. The focus of this thesis looks beyond the overall development potential and analysis how abundant resources are used to enhance domestic energy security. In 2013, major natural gas discoveries were made in Tanzania and Mozambique. Both countries have produced natural gas since 2004 but in limited, non-commercial quantities. Since 2004, Tanzania has increased its domestic energy supply from 10% to 24% of the market and increased total electrification from 11% to 36.4% of the population.¹¹ During the same period, Mozambique has increased energy access to 20% and electrification to 16% despite doubling production capacities.¹²

Global demand for energy resources is increasing. While the global energy market is moving toward reducing the dependence on fossil fuels, primarily oil, the international community continues to explore perspective resource sites, especially Sub-Saharan African. Diversifying energy resource suppliers is also a byproduct of geopolitical situations in the Middle East, which are making access riskier and more costly.¹³ The access opportunities in Sub-Saharan Africa have the potential to cause a scramble for land and off-shore drilling rights, but increased interdependence is improving regional and international partnerships to ensure a sustainable, diverse energy supply that is beneficial for all participants.¹⁴

Energy security is increasingly becoming a major focus in the world today. The choice to prioritize domestic energy security has long-term development implications.

¹¹ United Republic of Tanzania, *The Draft National Energy Policy 2015* (Tanzania: Ministry of Minerals, 2015), 4, <http://www.mem.go.tz/wp-content/uploads/2015/02/NATIONAL-ENERGY-POLICY-2015-Feb-2015.pdf>.

¹² “Mozambique Energy Situation,” Energypedia, accessed August 4, 2015, https://energypedia.info/wiki/Mozambique_Energy_Situation#Introduction; “Mozambique: Balances for 2013,” International Energy Agency, accessed August 10, 2015, <https://www.iea.org/statistics/statisticssearch/report/?country=Mozambique&product=balances>; “Mozambique: Balances for 2004,” International Energy Agency, accessed August 10, 2015, <https://www.iea.org/statistics/statisticssearch/report/?country=MOZAMBIQUE&product=balances&year=2004>.

¹³ Bert Kruyt et al., “Indicators for Energy Security,” *Energy Policy* 37, no. 6 (2009): 2169, doi: 10.1016/j.enpol.2009.02.006; Dieter Helm, “Energy Policy: Security of Supply, Sustainability and Competition,” *Energy Policy* 30, no. 3 (2002): 178, doi: 10.1016/S0301-4215(01)00141-0.

¹⁴ Daniel Yergin, *The Quest: Energy, Security, and the Remaking of the Modern World* (New York: Penguin, 2011), 229.

Growing energy demand and interdependence in a global energy market mean more economies are vulnerable to external influences and volatile markets.¹⁵ For developing countries, an overly inward focused energy strategy can insulate governments from exploitive relationships and volatile prices. With increased interest and investment, balanced energy strategies will enable countries to diversify their energy sectors, which could further enhance domestic energy security. Energy security in Sub-Saharan Africa could emerge from the improved energy strategies and policies associated with a stable supply of energy, but this outcome depends on governments making the choices necessary to pursue balanced strategies.

B. LITERATURE REVIEW

The following sections review the theoretical framework used when analyzing the energy security and development of Tanzania and Mozambique.

1. Energy Security

Energy security is a concept routinely discussed but is not clearly defined. The International Energy Agency's (IEA) definition of energy security is the foundation of the current understanding of energy security, which is the affordable access to reliable energy.¹⁶ Enhancing energy security requires a strong energy sector based on a sound energy strategy and effective energy policies because energy security affects the political, economic, and social aspects of every country. A common challenge for energy policy is simultaneously balancing energy, the environment, and growth; typically, only two of the elements progress at one time.¹⁷ Beyond the common definition of energy security, many studies attempt to break down the aspects of energy security into smaller more

¹⁵ Ibid., 343.

¹⁶ "Energy Security," International Energy Agency, accessed July 20, 2015, <http://www.iea.org/topics/energysecurity/>.

¹⁷ Helm, "Energy Policy," 173; Robert Springborg, "Egypt: The Challenge of Squaring the Energy—Environment—Growth Triangle," in *Routledge Handbook of Transitions to Energy and Climate Security*, ed. Robert Looney (London: Routledge, forthcoming 2016), 1, <http://relooney.com/NS4301/Egypt-7-29-2015.pdf>.

quantifiable factors, to the point that there are now more than 50 definitions of energy security.¹⁸

Winston Churchill's speech on the eve of World War I changed the collective perspective on energy security. Since then experts agree that diversification of energy suppliers and fuel types ensure and enhance energy security.¹⁹ The consensus among energy experts is that four fundamental factors are the base energy security: availability, affordability, efficiency, and environmental conservation. Primarily, scholars focus on the broad scope of energy security of developed countries and the energy supply implications on national security and foreign policy.²⁰ An additional focus area of scholars looks at the effect of diversifying domestic energy systems where countries have an abundance of energy resources.²¹

In recent years with the growing concern over global oil dependence, research is starting to look at energy independence. The field looks at the various aspects of countries with resource abundance and the correlation between resource dependence.²² Scholars arguing for energy independence indicate countries that prioritize using indigenous energy sources for energy security are less vulnerable to disruption or price shocks in global markets.²³ Even though the same scholars agree that complete energy independence is unrealistic, the research presented encourages countries to develop

¹⁸ Yergin, *Quest*, 266; Benjamin K. Sovacool, "Introduction: Defining, Measuring, and Exploring Energy Security," in *The Routledge Handbook of Energy Security*, ed. Benjamin K. Sovacool (New York: Routledge, 2011), 34–35.

¹⁹ Daniel Yergin, "Ensuring Energy Security," *Foreign Affairs* 85 no. 2 (March-April 2006): 70–71, <https://www.foreignaffairs.com/articles/2006-03-01/ensuring-energy-security>.

²⁰ Benjamin K. Sovacool and Marilyn A. Brown, "Competing Dimensions of Energy Security: An International Perspective," *Annual Review of Environment and Resources* 35 (November 2010): 102, doi: 10.1146/annurev-environ-042509-143035.

²¹ Xianguo Li, "Diversification and Localization of Energy Systems for Sustainable Development and Energy Security," *Energy Policy* 33, no. 17 (November 2005): 2243, doi: 10.1016/j.enpol.2004.05.002.

²² Frederick van der Ploeg and Steven Poelhekke, "Volatility and the Natural Resource Curse," *Oxford Economic Papers* 61, no. 4 (2009): 728–29, doi: 10.1093/oep/gpp027.

²³ Gail Cohen, Frederick Joutz, and Prakash Loungani, "Measuring Energy Security: Trends in the Diversification of Oil and Natural Gas Supplies," Working Paper WP/11/39 (International Monetary Fund, 2011), 3, <http://www.ourenergypolicy.org/wp-content/uploads/2014/01/internationalmf.pdf>.

multiple indigenous energy sources to enhance domestic energy security.²⁴ Energy independence in today's energy market is not to become entirely energy self-sufficient. The goal is to reduce the country's vulnerability to import dependence.²⁵

This thesis addresses how Tanzania and Mozambique's governments are reacting to recent natural gas discoveries and their country's energy insecurity. Decisions about how to use newly discovered gas resources relate to theories of distributive politics, political-economic growth strategies, and international trade. This section reviews these three approaches to understand how they may (or may not) explain recent discoveries in sub-Saharan Africa, such as in Tanzania and Mozambique.²⁶

2. Political Dynamics and Resource Distribution

To understand why a government selects an energy strategy, one must break down the components that influence the decision-making process. One of the key aspects of strategy choice is the politics of distribution within the government. The literature on distributive politics is extensive, so the following sections will highlight the aspects that are expected to be present in Tanzania and Mozambique.

Since single parties dominate the multiparty systems in Tanzania and Mozambique, one expects political parties will, at least to some extent, use energy resources as political leverage to stay in power. Competition between political elites over the access to energy resources has the potential to direct the distribution and development agendas of the central government. While the majority of the literature focuses on the reasons political parties distribute resources in hegemonic and multiparty systems, the focus of this thesis will be on how political elite competition over access to resources influences the choice of energy strategy.

²⁴ Saburo Okita, "Natural Resource Dependency and Japanese Foreign Policy," *Foreign Affairs* 52, no. 4 (July 1974): 723, doi: 10.2307/20038083.

²⁵ David L. Greene, "Measuring Energy Security: Can the United States Achieve Oil Independence?" *Energy Policy* 38, no. 4 (April 2010): 1620, doi: 10.1016/j.enpol.2009.01.041.

²⁶ Kruyt et al., "Indicators for Energy Security," 2167.

The literature on hegemonic and multiparty systems presents similar results on the different ways and reasons political parties distribute resources. Much of the research focuses on political parties establishing and maintaining political support in exchange for resources, such as electricity.²⁷ Within governments with one dominant party, the goal is to consolidate power and policy influence by catering to long-time party supporters.²⁸ By setting up political patronage systems, dominant party representatives benefit from the informal networks by staying in political office and by gaining access to resources.²⁹ The ability to influence strategy choice comes with maximizing positions in the decision-making process.³⁰ One expects that countries in Sub-Saharan Africa with dominant parties will seek to use access to resources as a way to stay in power, for example by distributing electricity or energy-related profit to the constituencies on which the maintenance of power depends.

In addition to the competition among parties, a factor that can have an impact on strategy choice is the presence of programmatic elites in the decision-making process. Jose Jaime Macuane defined programmatic elites as “a group of actors with direct access to policy-making positions that is self-consciously structured around a common commitment to a concrete and coherent programmatic model for a given policy sector.”³¹ The assumption going into this study is that the influence (or lack of) by technocrats and programmatic elites establish energy development policies that do not specifically reward or exclude districts based on political party loyalty. The growing area of study expands the view of distributive politics beyond political party competition and looks at the influence of programmatic elites or technocrats in influencing distributive policies.

²⁷ Marcelin Joanis, “The Road to Power: Partisan Loyalty and the Centralized Provision of Local Infrastructure,” *Public Choice* 146, no. 1 (January 2011): 117, doi 10.1007/s11127-009-0586-9.

²⁸ Laura Weinstein, “The Politics of Government Expenditures in Tanzania, 1999–2007,” *African Studies Review* 54 no. 1 (April 2011): 34, JSTOR (41304750); S. Erdem Aytac, “Distributive Politics in a Multiparty System: The Conditional Cash Transfer Program in Turkey,” *Comparative Political Studies* 47 no. 9 (2014): 1212, doi: 10.1177/0010414013495357.

²⁹ Van de Walle, *African Economies*, 54.

³⁰ Aytac, “Distributive Politics,” 1212.

³¹ Jose Jaime Macuane, “Economic and Political Liberalization, Dependency, and Elite Formation in Contemporary Mozambique,” Working Paper 2012:09 (Danish Institute for International Studies, 2012), 31, <https://www.ciaonet.org/attachments/21409/uploads>.

Scholars analyze the prominence of technocrats or political coalitions in decision-making positions and the distribution of resources based on development strategies. Research indicates that governments with programmatic elites can decide to distribute resources to regions regardless of party loyalty to promote stability.³² Governments that are influenced by programmatic coalitions tend to incorporate public preferences in the policy formation process more than multiparty systems because programmatic coalitions prioritize sector development rather than just political survival.³³ Programmatic distribution is not without political biases, though. Programmatic elites still have to maintain political support, and patronage embedded in development projects is common.³⁴

Resource endowments pose new avenues for political competition over control of resources. Tanzania and Mozambique have held several rounds of multiparty elections, but both countries experience political dominance by a single party. This thesis will look at the distributive trends of the government and the presence of programmatic elites influencing policy formation. The cohesiveness of decision makers is expected to have a significant impact on how a government chooses to develop the country's energy sector.

3. Economic Development Strategies

Strategies for developing energy sectors are an important aspect of economic growth strategies. Choosing an inward focused or export-led strategy is the first step in the process, and many internal and external factors influence the decision-making process within developing countries. For developing countries with abundant resources, economic ideology is one factor affecting a government's strategy choice for developing the country's energy sector.³⁵ Extensive research exists explaining why countries choose

³² Yusaku Horiuchi and Seungjoo Lee, "The Presidency, Regionalism, and Distributive Politics in South Korea," *Comparative Political Studies* 41, no. 6 (2008): 863, doi 10.1177/0010414006298900.

³³ Miriam Golden and Brian Min, "Distributive Politics Around the World," *Annual Review of Political Science* 16, no. 1 (2013): 74, doi: 10.1146/annurev-polisci-052209-121553.

³⁴ *Ibid.*, 77.

³⁵ Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, NY: Cornell Univ. Press, 1990), 28.

inward or export-oriented economic strategies. Very little research is published correlating national economic strategies with sub-sector development strategies.

A county's economic strategy provides a framework for how governments decide to develop the energy sector. The consensus among academics is that resource-based development goals tend to prioritize either export or domestic use of natural resources.³⁶ According to the research, both strategies are dependent on external investment and technology. Developing countries actively pursue investment and technology necessary for energy sector development, and recent studies indicate that developing countries are creating policies in competition for foreign direct investment (FDI).³⁷ The goal of governments is to be more attractive to private and foreign investment than other energy producing countries.³⁸ The choice of energy sector development strategy is related to the national economic strategy.

One expects that a successful energy strategy will reflect the objectives of the economic strategy. The International Monetary Fund and World Bank structural adjustment programs in the 1990s recommended economic reforms to liberalize economic sectors and establish "market-based institutions."³⁹ Developing countries attempting to transition to market-oriented economies are expected to implement reforms that remove or reduce government involvement in economic sectors.⁴⁰ The assumption is that the government would enable local, private investment in the energy sector. What the literature in economic strategy is clear on is what countries should implement to develop the national economy. The studies indicated that governments needed to decentralize the

³⁶ Michael Roemer, "Resource-Based Industrialization in Developing Countries: A Survey," *Journal of Development Economics* 6 no. 2 (1979): 163, doi: 10.1016/0304-3878(79)90012-9.

³⁷ Roemer, "Resource-Based Industrialization," 166; Rajneesh Narula and John H. Dunning, "Industrial Development, Globalization and Multinational Enterprises: New Realities for Developing Countries," *Oxford Development Studies* 28 no. 2 (2000): 142, doi:10.1080/713688313.

³⁸ Narula and Dunning, "Industrial Development," 142.

³⁹ Jakob De Haan, Susanna Lundstrom, and Jan-Egbert Sturm, "Market-Oriented Institutions and Policies and Economic Growth: A Critical Survey," *Journal of Economic Surveys* 20, no. 2 (2006): 157–8, Doi: 10.1111/j.0950-0804.2006.00278.x.

⁴⁰ *Ibid.*, 158.

control of the economy, promote privatization, and allow market signals to direct growth.⁴¹

In recent research, some scholars present data that supports selective state interference in sub-sectors. Wanting to protect an underdeveloped energy sector from the exploitation of private enterprises is expected, especially in developing countries where governments have a legacy of tight state control of all aspects of the economy.⁴² In some studies, scholars presented structured economic policies as an import substitution phase necessary to progress to export-led growth. Adopting a market-oriented strategy leads to the expectation that countries committed to liberalization would carry over the conditions to sub-sectors, such as the energy sector.⁴³

This thesis will analyze how the economic policies affect the development of the energy sector with the expectation that the national economic development strategy will correlate to energy sector development. The focus area of the research will look at how each country's government approaches privatization of the energy sector and how economic linkages influence the direction of domestic energy sector development.

4. International Relationships

With the recent discoveries, Sub-Saharan countries are experiencing increased interest from international actors. How governments react and interact with these actors is expected to have a significant effect on energy strategy choice, because the agendas of international partners strongly influence developing country governments. International partners often have privileged access to decision makers, and in return for assistance or investment, partners tend to implement concessions that direct the policy decisions of host governments. In many cases, pressure from external actors provides governments with incentives to align energy policies with the agendas of the external actors and makes

⁴¹ World Bank, *World Development Report 1987* (New York: Oxford Univ. Press, 1987), 92, <https://openknowledge.worldbank.org/handle/10986/5970>; Giles Mohan and Kristian Stokke, "Participatory and Empowerment: The Dangers of Localism," *Third World Quarterly* 21, no. 2 (April 2000): 250, JSTOR (3993419).

⁴² Haggard, *Pathways from the Periphery*, 24–25.

⁴³ *Ibid.*, 42.

governments less responsive to the demands of the population. The literature in this area focuses on the various ways external actors partner with resource-rich countries.

With increased interest, resource-rich countries in Sub-Saharan Africa are now faced with managing domestic and foreign energy resource demand.⁴⁴ A consensus within the policy community indicates regional and international partnerships are necessary for energy sector development because of the high up-front costs for energy infrastructure and imported technology. There are differing views on how much involvement international actors should have in a country's policy development process.

One area of research argues that international organizations (IGOs) should provide the standards and guidance of energy policies. Technical assistance is necessary because most developing countries do not have experience in managing energy sectors. The current trend of Western states is to promote private investment and improved investment climates in developing countries. Studies show that the legacy of international aid and the current trend of assistance are influencing governments to focus on domestic capacity to ensure the long-term development of the energy sector.⁴⁵

The literature also shows there is a push to promote energy sector reforms to include promoting stronger negotiating positions for developing countries.⁴⁶ Building energy sector management capabilities are expected to encourage governments to focus on domestic energy security while preventing the unbalanced exploitation of resources by international actors.⁴⁷ International organizations and regional energy partnerships in these cases have a weighted influence in a government's choice of energy strategy.⁴⁸

⁴⁴ Giorgio Gualberti, Morgan Brazilian, and Todd Moss, "Energy Investments in Africa by the U.S., Europe and China," *International Association for Energy Economics* (2014): 34, <http://www.iaee.org/en/publications/fullnewsletter.aspx?id=30>.

⁴⁵ Gualberti, Brazilian and Moss, "Energy Investments in Africa," 31.

⁴⁶ Leon Fuerth, "Energy, Homeland, and National Security," in *Energy and Security: Toward a New Foreign Policy Strategy*, ed. Jan H. Kalicki and David L. Goldwyn (Baltimore: Johns Hopkins Univ. Press, 2005), 412–13.

⁴⁷ Adam B. Jaffe and Robert N. Stavins, "The Energy-Efficiency Gap: What Does It Mean?" *Energy Policy* 22, no. 10 (October 1994): 808, doi: 10.1016/0301-4215(94)90138-4.

⁴⁸ Charles Roxburgh et al., *Lions on the Move: The Progress and Potential of African Economies* (N.P.: McKinsey Global Institute, June 2010), 8; Africa Progress Panel, *Power People Planet*, 104.

Other academics present the case that strong foreign interest often encourages developing countries to prioritize exporting energy resources. Global energy consumers use direct investment to gain preferential access to resources.⁴⁹ In Sub-Saharan Africa where most countries run energy deficits, there is a growing demand for resource-rich countries to supply the region. Regional power pools guide countries to export energy with the expectation that the partnership will be a more efficient means to enhance energy security.⁵⁰ The political influence of powerful neighbors and regional partnerships is expected to influence a government's energy strategy toward export.

This thesis will analyze the influence international actors have had in the decision making and policy development process of developing countries. Since both Tanzania and Mozambique have only recently begun to expand their energy production, the influence of international actors is likely to be a key factor in the choice of energy strategy.

C. PROBLEM AND HYPOTHESIS

The major issue addressed by this thesis is why countries pursue energy strategies that focus on domestic consumption of energy resources instead of export. Building on the three areas of literature described in the previous section, the thesis advances three hypotheses to explain why a resource-rich country would choose to prioritize domestic energy supply instead of exporting energy resources. The first hypothesis is that governments with a cohesive group of elites willing to share access to energy resources will lead governments to prioritize domestic energy supply. The second hypothesis predicts that energy sector privatization reforms that are aligned with the macroeconomic strategy will enable governments to enhance domestic energy security through consistent

⁴⁹ Peng Claire Bai, "The Ambivalent Nexus: The Rise of China, National Oil Companies, and Energy Security in Africa," in *Crossroads Africa: Perspectives on U.S.-China-Africa Security Affairs*, ed. Robert Tomes, Angela Sapp Mancini, and James T. Kirkhope (New York: Council for Emerging National Security Affairs, 2009), 140; Daouda Cissé, *Globalisation and Sustainable Africa-China Trade: What Role Play the African Regional Organisations?* (Sweden: Nordic Africa Institute, 2015), 22–23, <https://www.diva-portal.org/smash/get/diva2:782298/FULLTEXT01.pdf>.

⁵⁰ World Bank, *Building Regional Power Pools: A Toolkit* (Washington, DC: Energy, Transport, and Water Department, World Bank Group, 2008), 3, <http://documents.worldbank.org/curated/en/2008/06/9665210/building-regional-power-pools-toolkit>.

energy policies and mutually beneficial international partnerships. The third hypothesis is that policy influence from external actors will affect a government's choice of energy strategy. If the political dynamics within the government are cohesive then the international relationships will support the development of the domestic energy sector. If the political dynamics are fractured with then international relationships are expected to support export-led development of the energy sector.

All of the hypotheses have important implications for developing energy producers and their partners. Recent discoveries of natural resources in Sub-Saharan Africa and the increased prioritization of energy security throughout the world is pushing Tanzania and Mozambique to the front of the increasingly interconnected global energy market. If the first hypothesis is correct, political elites need to be willing to cede control of access to resources and distribution. If the second hypothesis is correct, developing countries with abundant energy resources need to use the economic framework as a model for domestic energy sector development. If the third hypothesis is correct, governments need to establish consistent policies to ensure partnerships are mutually beneficial and aligned with national interests.

D. METHODS AND SOURCES

The research design will include a comparative case study of Tanzania and Mozambique. The comparison will focus on the political dynamics of decision makers, national economic strategies, and international relationships to isolate key differences that explain a government's choice of energy strategy. The countries were chosen based on a number of underlying similarities. Both countries experienced significant natural gas discoveries at the same time and had similar political and economic foundations prior to the discoveries. In both cases, the governments are also faced with the same energy sector challenges. Given the similarities and each country's underdeveloped energy sectors, both governments have the opportunity to choose a domestic supply or export-led energy strategy.

The analysis will draw from a variety of sources. A majority of the research will rely on scholarly journals, government reports, and international statistics collection

agencies. This thesis will also include information collected in government and interest group working papers that analyze the current energy situation in Tanzania and Mozambique. Press releases and news reports will provide additional insight into the factors influencing strategy choice.

E. THESIS OVERVIEW

This thesis will analyze how the governments of Tanzania and Mozambique are reacting to recent energy resource discoveries. With access to significant amounts of energy resources, decision makers are faced with enhancing domestic supply or developing export capabilities. To provide an explanation of why a developing country would choose a domestic supply strategy, the factors influencing decision makers needs to be analyzed.

The thesis is organized into four chapters using a case study and comparative analysis format. Following the introductory chapter, the Chapter II presents the political dynamics, economic strategy, and international relations of Tanzania. Chapter III consists of the Mozambique case study that will address the same factors as the Tanzania case study. The conclusion chapter provides a comparative analysis of the Tanzania and Mozambique case studies as well as implications for energy sector development strategies for developing countries.

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II. TANZANIA

A. INTRODUCTION

Tanzania experienced a paradigm shift in how the government addressed the country's energy insecurity. Recently discovered reserves of natural gas provided Tanzania with an opportunity to secure its supply of energy from domestic sources before it profited from the export of natural gas. The Government of Tanzania (GoT) has chosen to enact a series of internally directed energy sector policies that provide clearly defined goals to enhance domestic energy security.⁵¹ Simultaneously, the economy has shifted toward a market-oriented strategy. Tanzania's inward-focused strategy, in contrast to Mozambique's export-oriented strategy, prioritized the use of its natural resources for domestic energy supply rather than export. This chapter argues that the development of energy resources for domestic use in Tanzania was a result of the cohesiveness of programmatic elites, the liberalization of the country's economy, and the external relationships with Western partner nations and international organizations. The first section of this chapter will address the political context of the development of the energy sector and the agents involved in setting policy and distributing resources. The second section will focus on the aspects of Tanzania's economic trajectory that favors private investment and a limited interventionist role of the central government. The third section presents the external relations that fostered an inward focused development strategy.

B. HISTORICAL AND POLITICAL CONTEXT OF ENERGY SECTOR DEVELOPMENT

Tanzania's energy sector has been stagnant for most of the country's history. Socialist policies adopted at independence did little to enhance or maintain the existing infrastructure. Like most countries, in Tanzania electricity and energy resources are public services the government is expected to provide. The economic crisis spanning the 1980s and 1990s led to international economic intervention, which began a paradigm

⁵¹ Jonas Ewald, *Challenges for the Democratisation Process in Tanzania: Moving Towards Consolidation 50 Years After Independence?* (Tanzania: Mkuki na Nyota, 2011), 397.

shift in Tanzania's approach to its energy insecurity.⁵² The economic liberalization process, which the next section will discuss in more detail, turned the distribution of energy from public service to a market commodity.

In 2004, large reserves of natural gas were discovered in Tanzania. By then the political and economic trajectory of Tanzania had shifted. The government remained single-party-dominated but had growing participation by opposition parties. Within the national government, the party elites had also shifted from primarily party loyalists to elites motivated to promote a unified developmental program.⁵³ The energy sector development plans devised required the decision makers to maintain an inward focus.

A significant point that led the Government of Tanzania to choose domestic energy development over export was the prominence of technocratic and programmatic elites in decision-making positions. According to Stephen Haggard, the dimension of the state structure was a key factor in how governments chose a development strategy.⁵⁴ In Tanzania, the political elites experienced a general cohesiveness of decision makers that enabled them to establish consistent policies that were accepted by the public.⁵⁵ In comparison, technocrats have been removed from political positions in Mozambique.⁵⁶ Even though there are signs of biased distribution of certain goods and services in Tanzania, the equal distribution of energy appears to cross party loyalty lines.

Political competition for the access to energy resources has been limited since the first natural gas discovery in 1974. Since 1962, the Chama Cha Mapinduzi (CCM) has been the dominant ruling party, and the country has experienced relative political stability.⁵⁷ After independence, Tanzania was a single-party state with the African

⁵² Rebecca Ghanadan, "Connected Geographies and Struggles over Access: Electricity Commercialisation in Tanzania," in *Electric Capitalism: Recolonising Africa on the Power Grid*, ed. David A. McDonald (London: Earthscan Dunstan House, 2009), 401–2, doi: 10.4324/9781849771061.

⁵³ Robert Pinkney, *Democracy and Dictatorship in Ghana and Tanzania* (New York: St. Martin's Press, 1997), 117, doi: 10.1057/9780230379589.

⁵⁴ Haggard, *Pathways from the Periphery*, 43.

⁵⁵ *Ibid.*, 45.

⁵⁶ Weinstein, "Politics of Government Expenditures," 54.

⁵⁷ Van de Walle, *African Economies*, 154.

National Unity (TANU) as the ruling party. TANU became the Chama Cha Mapinduzi party (CCM) in 1977 under the unifying effort of President Julius Nyerere. Fearing the fractionalization of the party after independence, President Nyerere promoted socialist principles that focused the government's attention on providing resources to the population.⁵⁸ The socialist policies ensured party cohesion and set the framework for an inward-focused energy development strategy.

One reason that distribution of energy resources crosses party lines in Tanzania is the CCM's historically dominant position and its willingness to share access to energy resources. The dominance of the CCM has established a relatively cohesive group of elites that face limited challenges to their policy choices. The Civic United Front (CUF) is the primary opposition party, but its power base is located in the semi-autonomous archipelago of Zanzibar.⁵⁹ Only recently with the significant discoveries of deep-water natural gas reserves has competition for control of natural gas occurred.⁶⁰ Since Zanzibar is reliant on mainland Tanzania for energy resources, the CCM has quieted tensions through the distribution of electricity and restructuring of the Natural Gas Production Sharing Agreement (PSA).⁶¹

Keeping with Haggard's explanation of development strategies, the GoT exhibited a consensus on the energy sector development strategy. The cohesiveness of the state elite in the decision-making process was a critical factor in the choice to use the

⁵⁸ Nic Cheeseman, *Democracy in Africa: Successes, Failures, and the Struggle for Political Reform* (New York: Cambridge University Press, 2015), 40–41.

⁵⁹ Bernadeta Killian, "The State and Identity Politics in Zanzibar: Challenges to Democratic Consolidation in Tanzania," *African Identities* 6, no. 2 (2008): 100, doi: 10.1080/14725840801933932.

⁶⁰ "A Snapshot of Tanzanian Natural Gas: The Story So Far," Norton Rose Fulbright, December 2014, <http://www.nortonrosefulbright.com/knowledge/publications/123532/a-snapshot-of-tanzanian-natural-gas>.

⁶¹ Fumbuka Ng'wanakilala, "Zanzibar Says Reaches Deal with Tanzania on Oil, Gas Revenues," *Reuters*, October 25, 2012, <http://uk.reuters.com/article/tanzania-zanzibar-exploration-idUKL5E8LPOKK20121025>; "Electricity Projects Financed by Millennium Challenge Corporation (MCC)," Tanzania Electric Supply Company, accessed February 23, 2016, http://www.tanesco.co.tz/index.php?option=com_content&view=article&id=98&Itemid=251; Millennium Challenge Corporation, "MCC, 10 American Companies Explore Opportunities in Tanzania," Press Release, June 4, 2015, <https://www.mcc.gov/news-and-events/release/release-060415-mcc-10-american-companies-explore-opportunities-in-tanzania>.

country's energy resources for domestic purposes.⁶² In comparison, Mozambique's central government was (and still is) highly fractionalized, which produced inconsistent, ambiguous policies.⁶³ A key aspect in the cohesion was the lack of difference in ideology or policy preference between the CCM and the opposition parties.⁶⁴ While Tanzania was not without internal political conflicts, the decision-making process was concentrated at the national level. The top-down decision-making was similar to both Mozambique and the East Asian newly industrialized countries (NICs).⁶⁵ The ability of the elites to push interests without strong social pressure allowed the government to integrate further the inward focused energy sector development strategy into the greater national development vision.

A common policy failure within developing countries comes with policies that incorporate agendas of multiple ministries. Tanzania's Ministry of Energy and Minerals (MEM) provided a unified platform for both the natural gas and electricity sub-sectors. The significance of having both sub-sectors managed by one ministry was that there were limited opportunities for other cabinet ministers to coordinate or counter the strategy to use natural gas for domestic energy.⁶⁶ The completion of six gas-fired generation projects and seven transmission expansion projects was evidence of the acceptance of the strategy to transition from hydropower to gas-fired power generation.⁶⁷

The new direction of energy distribution has earned increased public support for the CCM and its inward focused strategy. Previous studies indicated that the CCM enhanced its political support by increasing budget allocations to loyal CCM districts and

⁶² Haggard, *Pathways from the Periphery*, 43.

⁶³ Sumich, "Party and the State," 693.

⁶⁴ Weinstein, "Politics of Government Expenditures," 42.

⁶⁵ Sanjaya Lall, "Malaysia: Industrial Success and the Role of the Government," *Journal of International Development* 7, no. 5 (September-October 1995): 764, doi 10.1002/jid.3380070506.

⁶⁶ William Ascher, *Why Governments Waste Natural Resources: Policy Failures in Developing Countries* (Baltimore: Johns Hopkins Univ. Press, 1999), 262.

⁶⁷ Christian Matyelele Msyani, "Current Status of Energy Sector in Tanzania," (presentation, United States Energy Association Executive Exchange on Developing an Ancillary Service Market, Washington, DC, February 25–March 2, 2013), slides 18–19, <https://www.usea.org/sites/default/files/event-/Tanzania%20Power%20Sector.pdf>.

reducing allocations to districts that favored opposition parties.⁶⁸ Districts like Mtwara and Mbeya experienced the fastest energy development, and they were not CCM strongholds.⁶⁹ Overall, the GoT has maintained its support for the development strategy by doubling the country's electricity access.⁷⁰

Tanzania's domestic energy sector development has benefited from the political reforms and the evolution of the decision makers. While the relative unity of political elites helped create an inwardly focused, coherent energy strategy that has increased domestic energy production and distribution, this strategy in turn helped to support the political hegemony of the CCM and political elites. The Government of Tanzania has changed its ideological views from socialist to more liberal while it maintained an interest in providing public goods and political cohesion. Led by programmatic elites, the GoT has established a consistent set of energy sector policies that have included multiple ministries. In the meantime, the population benefited from increased distribution of electricity through a diversification of energy sources.

C. ECONOMIC STRATEGY

The dominance of the CCM and the cohesiveness of the decision makers do not fully explain why the GoT prioritized its domestic energy sector rather than exporting the natural resources for commercial purposes. The orientation of Tanzania's development strategy was shaped by the political cohesiveness, which aligned with the interests of its international partners. External relationships will be further discussed in the next section. Decision making was reserved for the central government, but the state downsized its role in the economy. Unlike Mozambique, the GoT's decentralized role in the energy sector

⁶⁸ Weinstein, "Politics of Government Expenditures," 52.

⁶⁹ Ibid., 54.

⁷⁰ United Republic of Tanzania, *Basic Demographic and Socio-Economic Profile Report Tanzania Mainland* (Tanzania: National Bureau of Statistics, Ministry of Finance, and Office of Chief Government Statistician, 2014), vii, xii, http://www.tanzania.go.tz/egov_uploads/documents/TANZANIA_MAINLAND_SOCIO_ECONOMIC_PROFILE_sw.pdf; "More Than Clouds over the Southern Highlands of Tanzania," African Electric Territorialities, November 28, 2014, <https://electricterritorialities.wordpress.com/tag/tanzania/>. Embedded video information used appears at 0:17.

has limited its direct ownership of energy enterprises, which allowed the government to focus on sector management. The selective involvement in the energy sector was designed to optimize market competition in the “generation, transmission, and distribution” of energy and encourage the development of the domestic market.⁷¹ The market orientation of the country’s economy fostered a stronger influence of local small- and medium-size enterprises (SMEs) in the energy sector. In comparison, Mozambique has focused on exporting its natural gas now, and plans to develop the domestic energy sector later. Also, the Government of Mozambique (GoM) presented a development strategy that favored mega projects and large foreign investors over local entrepreneurs.

Tanzania’s inward focused strategy has clearly defined programmatic objectives. To reach the energy goals the government has adopted a market-oriented economic strategy. Lessons learned from developed countries indicate that an inward focus and selective state protection policies prior to transitioning to an export-led strategy initially favors the domestic market.⁷² With a long history of import substitution, there are elites in the government that maintained the protectionist strategy in the energy sector.⁷³ The elites promoting more protectionist development strategies are the base of the programmatic elite in Tanzania. The group has linked the energy strategy with the objectives of the national development strategy to create coherent and consistent policies. The government’s national strategy documents, The Big Results Now initiative and the Vision 2025, established the framework of how the government intends to address the natural gas windfall and domestic energy insecurity.⁷⁴

⁷¹ David A. McDonald, “Electric Capitalism: Conceptualising Electricity and Capital Accumulation in (South) Africa,” in *Electric Capitalism: Recolonising Africa on the Power Grid*, ed. David A. McDonald (London: Earthscan, 2009), 22.

⁷² Haggard, *Pathways from the Periphery*, 31.

⁷³ Michael F. Lofchie, *The Political Economy of Tanzania: Decline and Recovery* (Philadelphia, PA: Univ. of Pennsylvania Press, 2014), 20; David Greenaway and Chong Hyun Nam, “Industrialisation and Macroeconomic Performance in Developing Countries under Alternative Trade Strategies,” *Kyklos International Review for Social Sciences* 41, no. 3 (August 1988): 425, doi: 10.1111/j.1467-6435.1988.tb01263.x.

⁷⁴ United Republic of Tanzania, *Tanzania Big Results Now! 2013/2014 Annual Report* (Tanzania: Office of the President, 2014), 30, <http://65.175.71.188/documents/ANNUAL%20REPORT.pdf>.

The volatility of the natural gas market also concerned the GoT. Tanzania did not have to look far to see the negative effects of price shocks of natural resources. By developing the country's domestic energy sector before exporting, the government protected itself from price shocks in the volatile natural gas market. The local entrepreneurs that gained access to cheap energy allows the country to insulated itself from international energy supply fluctuations.⁷⁵

Market-oriented strategies combined with aspects of state intervention have been successful in some NICs. Taiwan, Singapore, and Korea all had success with limited state protective measures in a market-oriented economy.⁷⁶ Similar to China, the GoT played an active yet limited role in the economy to facilitate competition and maximize opportunities for the domestic energy market.⁷⁷ The main mechanisms that bolstered domestic enterprises and the domestic energy sector were the natural gas PSAs and the recently passed Local Content Policy (LCP) for Natural Gas. The PSAs were signed contracts that create joint ventures between international oil companies and the Tanzania Petroleum Development Company (TPDC). Additionally, PSAs ensured local energy enterprises received at least a minimum of produced resources to meet domestic energy demand.⁷⁸ The PSAs and the LCP not only ensured that the government could diversify its domestic energy supply but also it improved opportunities for mid- and down-stream local enterprises.⁷⁹

⁷⁵ Luke Patey, "Africa's Petrostates Are Imploding," *Foreign Policy*, April 4, 2016, <http://foreignpolicy.com/2016/04/04/africas-petrostates-are-imploding/>; Haggard, *Pathways from the Periphery*, 31.

⁷⁶ Haggard, *Pathways from the Periphery*, 14.

⁷⁷ Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *China Quarterly* 144, Special Issue: China's Transitional Economy (December 1995): 1132, JSTOR (655295).

⁷⁸ Thomas Baungaard, "United Republic of Tanzania: Selected Issues," IMF Country Report No. 14/121 (Washington, D.C.: International Monetary Fund, 2014), 6, <https://www.imf.org/external/pubs/ft/scr/2014/cr14121.pdf>.

⁷⁹ "Oil and Gas Taxation in Tanzania," Deloitte, 4, <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/gx-er-oil-and-gas-tax-guide-tanzania.pdf>; Jesse Salah Ovadia, "The Role of Local Content Policies in Natural Resource-Based Development," in *Austrian Development Policy 2015: Commodities and Development* (Vienna: Austrian Foundation for Development Research, 2015), 37, http://www.oefse.at/fileadmin/content/Downloads/Publikationen/Oepol/OEPOL2015_web.pdf.

Unlike Mozambique, the GoT has taken a decentralized, strategic role in the energy sector rather than direct control. By decentralizing, the government has limited its monopoly ownership of enterprises in the natural gas and electricity subsectors. The privatization strengthened local stakeholders and allowed the GoT to focus on sector management.⁸⁰ The GoM faced the same challenge, but the Mozambique Liberation Front's (FRELIMO's) priority decided to collect revenue from natural gas and electricity exports to maintain political power over the Mozambican National Resistance (RENAMO).

The aggressive privatization strategy in Tanzania has created new business opportunities for local investors. The country's economic strategy has led to the privatization of over 300 state-owned enterprises through private sales, joint ventures, and public shareholding options.⁸¹ Prioritizing of the domestic market has also enabled more local entrepreneurs to secure financing. Both The Bank of Tanzania and the rapidly expanding commercial banking sector in Tanzania have increased the lending rates for long-term loans.⁸² As a result, the domestic energy sector has experienced an increase in local SME investment in community energy projects.

Restructuring the electricity sub-sector has been a key to the privatization of the energy sector. Recommendations from international technical advisors led to the GoT unbundling its state utility, TANESCO, and its national oil company, TPDC. The restructuring of TANESCO consisted of separating the “vertically integrated” utility into

⁸⁰ “Tanzania Natural Gas Policy,” Norton Rose Fulbright, January 7, 2014, <http://www.nortonrosefulbright.com/knowledge/publications/110979/tanzania-natural-gas-policy>.

⁸¹ Samwel M.S. Waigama, “Privatization Process and Asset Valuation: A Case Study of Tanzania,” (PhD diss., Royal Institute of Technology, 2008), https://www.kth.se/polopoly_fs/1.173402!/Menu/general/column-content/attachment/81.pdf; Douglas F. Barnes and Willem M. Floor, “Rural Energy in Developing Countries: A Challenge for Economic Development,” *Annual Review of Energy and the Environment* 21 (November 1996): 497, doi: 10.1146/annurev.energy.21.1.497.

⁸² “Tanzania Bank Lending Rate: 2003–2016,” Trading Economics, accessed April 10, 2016, <http://www.tradingeconomics.com/tanzania/bank-lending-rate>; “Banks in Tanzania,” Zoom Tanzania, accessed April 22, 2016, <http://www.zoomtanzania.com/biz/banks>.

separate entities to provide services from power generation to distribution.⁸³ The state continues to own the generation company, and it is now a publicly traded corporation allowing up to 49% of the company to be sold to public shareholders. Private investors compete to provide transmission and distribution services.⁸⁴ The unbundling of TPDC followed a standard model of upstream regulation, similar to the model used by Norway, which promoted a “three-way separation of powers” between the GoT, TPDC, and the national oil company.⁸⁵ TPDC remains the sub-sector upstream regulator, while the national oil company competes in the natural gas sub-sector and advises the Ministry of Energy and Minerals on the current natural gas production levels and “policy issues.”⁸⁶

The GoT viewed the restructuring as a way to attract local investors that have a personal interest in providing improved service since electricity transmission and distribution projects were not attractive to foreign private investors. Recent legislation established the Regional Energy Agency (REA) and the Electricity and Water Utilities Regulatory Agency (EWURA), which support and monitor independent power producers (IPPs). In general, IPPs were designed to reduce the financial burden of state utilities to construct new power projects, provide additional energy supply to meet domestic demand, and lower energy prices for consumers.⁸⁷ The consistent budget allocation to REA ensured small IPPs had the financial support to start-up operations and fair access to domestic energy sources. With the support given to small IPPs, Tanzania has witnessed

⁸³ McDonald, “Electric Capitalism,” 22; United Republic of Tanzania, *Electricity Supply Industry Reform Strategy Roadmap 2014–2025* (Tanzania: Ministry of Energy and Minerals, 2014), 3–4, <http://www.gst.go.tz/images/TANZANIA%20ELECTRICITY%20SUPPLY%20INDUSTRY%20REFORM%20STRATEGY%20&%20ROADMAP.pdf>.

⁸⁴ Erick Kabendera, “TanESCO to Go Public, Be Split into Three Firms after \$1.15b Reforms,” *East African*, August 2, 2014, <http://www.theeastafrican.co.ke/news/TanESCO-to-go-public--be-split-into-three-firms/-/2558/2406404/-/ttvmrz/-/index.html>.

⁸⁵ Norton Rose Fulbright, “Snapshot of Tanzanian Natural Gas.”

⁸⁶ Ibid.; Norton Rose Fulbright, “Tanzania Natural Gas Policy.”

⁸⁷ Katharine Gratwick, Rebecca Ghanadan, and Anton Eberhard, “Generating Power and Controversy: Understanding Tanzania’s Independent Power Projects,” Management Programme in Infrastructure Reform and Regulation Working Paper Updated to 2007: version 2 (Cape Town: University of Cape Town Graduate School of Business, 2007), 8, <http://www.gsb.uct.ac.za/files/GeneratingPowerControversy.pdf>.

in increase in community micro-grids and use of solar photo voltaic systems that have the ability to be connected to the national grid.⁸⁸

The increased number of IPPs providing off-grid electricity has allowed the government to attract foreign investors to complement the domestic priorities. Through improved access to reliable energy, the GoT has promoted a less risky investment climate. As a result, the improved business environment has led to an increased confidence and willingness of international actors to negotiate mutually beneficial contracts with the GoT. The combination of the political elite wanting to expand the domestic energy market and international oil companies being attracted to the abundance of natural gas reserves allowed the GoT to develop policies and legislation that balance domestic interests with investment attractiveness.⁸⁹ Foreign inflows are essential for the construction of necessary energy infrastructure and improved extraction technology.⁹⁰ By partnering with international oil companies (IOCs) the GoT has been able to increase public spending on switching from hydro power generation to primarily a natural gas-fired power supply.⁹¹

Tanzania's economic strategy fits into the first stage of import substitution industrialization (ISI). The core policies within this stage were designed to establish free trade and attract foreign investment while protecting and financially supporting local entrepreneurs.⁹² There was clear evidence that the liberalization of the economy has improved Tanzania's investment climate. The discovery of large reserves of natural gas has led to an extractive sector dominated by IOCs and the TPDC. Despite the investment

⁸⁸Katharine Nawaal Gratwick and Anton Eberhard, "An Analysis of Independent Power Projects in Africa: Understanding Development and Investment Outcomes," *Development Policy Review* 26, no. 3 (May 2008): 320, http://regulationbodyofknowledge.org/wp-content/uploads/2013/09/Gratwick_An_Analysis_Of.pdf.

⁸⁹ Ghanadan, "Connected Geographies and Struggles," 410–11.

⁹⁰ Msyani, "Energy Sector in Tanzania," slide 17.

⁹¹ United Republic of Tanzania, *Electricity Supply Roadmap 2014–2025*, 9; United Republic of Tanzania, *Government Budget for Financial Year 2014/15: Citizens' Budget Edition* (Tanzania: Ministry of Finance, 2015), 8, http://www.mof.go.tz/mofdocs/budget/Citizens%20Budget/CITIZENS%20BUDGET_%20English_2014_15_Publish.pdf.

⁹² Haggard, *Pathways from the Periphery*, 25.

of foreign industry and external actors, the GoT has been able to implement policies that have benefited the domestic energy market and local entrepreneurs.⁹³ In contrast Mozambique attempted to skip to export-led energy sector development that favors a small group of elites and large, foreign investors.⁹⁴

A combination of politically cohesive decisions and an aggressive economic liberalization enabled the GoT prioritize the development of its domestic energy sector.⁹⁵ With the quantities of energy resources available for exploitation, foreign extractive industries will continue to vie for contracts with Tanzania despite its selective state intervention to ensure domestic demand is met.⁹⁶ Until the comparative advantage shifts from agriculture to natural gas the GoT appears to be waiting for the right signals to transition to energy export-led growth.⁹⁷

D. INTERNATIONAL RELATIONSHIPS

Tanzania's international partnerships have shaped the trajectory of the country's energy strategy. A significant area of divergence between Tanzania and Mozambique occurred with the nature of international relationships in the energy sector. In Tanzania, the government has become more involved with Western international financial institutions and it has not been pressured by neighboring countries to export energy. Whereas in Mozambique, the pressure from external actors to export energy and partner with large private investors have led to the export-oriented energy strategy. This section

⁹³ United Republic of Tanzania, *Draft One Local Content Policy of Tanzania For Oil and Gas Industry— 2014* (Tanzania: Ministry of Energy and Mining, 2014), 3, <https://mem.go.tz/wp-content/uploads/2014/05/07.05.2014local-content-policy-of-tanzania-for-oil-gas-industry.pdf>; Deloitte, *Oil and Gas Taxation*, 3–4.

⁹⁴ Benedito Cunguara, "An Exposition of Development Failures in Mozambique," *Review of African Political Economy* 39, no. 131 (March 2012): 161, doi: 10.1018/03056244.2012.657881.

⁹⁵ Haggard, *Pathways from the Periphery*, 15.

⁹⁶ Deloitte, *Tanzania Budget Insight 2015: Diving Deep* (Tanzania: Deloitte, 2015), 3, http://www2.deloitte.com/content/dam/Deloitte/tz/Documents/tax/Tax_Budget%20Insight%202015_TZ.pdf.

⁹⁷ Haggard, *Pathways from the Periphery*, 27; "Tanzania: Exports," Observatory of Economic Complexity, accessed February 8, 2016, <http://atlas.media.mit.edu/en/profile/country/tza/#Exports>.

will discuss various international partnerships with the GoT and the impacts on the domestic energy sector.

Immediately following independence, Tanzania adopted socialist economic policies and focused on internal development of the economy.⁹⁸ In the late 1990s, the economic views of the elite shifted and the GoT began to align with Western partners and IFIs.⁹⁹ Tanzania's recent natural gas discoveries have led to an increased interest in the country's energy resources, but the relationships established with the international community have allowed Tanzania to maintain an inward focus while developing the domestic energy sector.

The international system is a critical factor in a country's choice of development strategy.¹⁰⁰ After the resignation of President Julius Nyerere, Tanzania has tended to align with Western partners and international organizations.¹⁰¹ The GoT's responsiveness to externally imposed reforms in trade for financial aid assisted in shifting the isolated state toward its current market-oriented stance.¹⁰² The ownership that Tanzania took in continuing the reforms has raised the international community's confidence in doing business in Tanzania. Since the discovery of natural gas, the international community has expanded the scope of technical assistance to Tanzania because of the country's increased capacity to generate revenue from energy resources. The current trend is to assist Tanzania with enhancing its domestic energy supply and pushing public-private partnerships. For Tanzania, the push for public-private partnerships (PPPs) aligned with its domestic priorities to promote local energy enterprises and the domestic use of the country's energy resources.

⁹⁸ Cheeseman, *Democracy in Africa*, 40–41.

⁹⁹ Alastair Fraser and Lindsay Whitfield, "Understanding Contemporary Aid Relationships," in *The Politics of Aid: African Strategies for Dealing with Donors*, ed. Lindsay Whitfield (Oxford, NY: Oxford Univ. Press, 2009), 54.

¹⁰⁰ Haggard, *Pathways from the Periphery*, 29.

¹⁰¹ Roger Nord et al., *Tanzania: The Story of an African Transition* (Washington, DC: International Monetary Fund, 2009), 3, <https://www.imf.org/external/pubs/ft/books/2009/tanzania/tanzania.pdf>.

¹⁰² Graham Harrison, Sarah Mulley and Duncan Holtom, "Tanzania: A Genuine Case of Recipient Leadership in the Aid System?" in *The Politics of Aid: African Strategies for Dealing with Donors*, ed. Lindsay Whitfield (Oxford, NY: Oxford Univ. Press, 2009), 251–52.

The partnerships within the international system allowed the GoT to continue to pursue an inward focused energy sector development strategy. The international partnerships that the elite pursued provide the GoT with measures of performance legitimacy and necessary technical assistance to manage the emerging energy sector. The alliances and global initiatives coincided with the domestic priorities to enhance domestic energy security and transition from hydro power dependent to a more reliable gas-fired power system. Misalignment of policy priorities is often a development impediment of developing countries because global energy consumers and IOCs often take advantage of the exploitive nature of inexperienced governments attempting to manage an abundant natural resource sector.¹⁰³

Tanzania, much like Mozambique, experienced significant influence and pressure from external actors but have observed very different results from the partnerships. Both countries have been “donor darlings” since the 1990s.¹⁰⁴ During this time, recommendations from the World Bank and International Monetary Fund (IMF) led the country to liberalize its economy. Today, the liberalization has allowed the political elite to implement reforms that favor domestic entrepreneurs and stakeholders in public enterprises¹⁰⁵ The political elite continue to foster close ties to foreign donors either for technical assistance or financial aid.¹⁰⁶ Since the discovery of large natural gas reserves, official development assistance (ODA) in relation to gross domestic product (GDP) has declined, which gave the GoT greater autonomy to focus on domestic priorities.¹⁰⁷ The government’s autonomy increased because of the reduction of policy requirements that international partners attach to ODA, which allowed decision makers to choose partners that complemented the government’s agenda.

¹⁰³ Ascher, *Why Governments Waste*, 38.

¹⁰⁴ Whitfield and Fraser, “Negotiating Aid,” 15–16; Whitfield and Fraser, “Introduction: Aid and Sovereignty,” xxxix.

¹⁰⁵ Lofchie, *Political Economy of Tanzania*, 24.

¹⁰⁶ *Ibid.*, 26.

¹⁰⁷ *Ibid.*, 105.

Through the external relationships, the GoT has improved its energy sector management capabilities through international monitoring assistance. The international community routinely criticized the government of Tanzania for the perception of rampant corruption, and by pursuing and meeting international requirements it was a sign that the sustainable development of its energy sector was a priority of the GoT. The outsourcing of monitoring and enforcement of the accountability mechanism to the Extractive Industries Transparency Initiative (EITI) and the International Energy Charter (IEC) improved the government's accountability to the public because of the improved transparency and management of the energy sector.¹⁰⁸

The standards required of compliance to the EITI and the IEC also promoted a balanced energy sector development strategy. The improved reporting and transparency to the public made the elites more accountable and more responsive to the population. The EITI process established mutual accountability of private industry and the government, which promoted government legitimacy within the international community and with the local population.¹⁰⁹ According to the IEC, “the Energy Charter is an international organization that promotes the rule of law and regulatory stability for investment, trade, transit and efficiency in the energy sector across the world.”¹¹⁰ Through the guidance of the International Community, the GoT has created the National Regulatory Agency and the Tanzania EITI (TEITI). Compliance with EITI provided measures for broad based performance legitimacy, which enabled Tanzania to pursue its inward energy sector development strategy. In Mozambique, the GoM's export-oriented

¹⁰⁸ Helen Tilley, *The Political Economy of aid and Accountability: The Rise and Fall of Budget Support in Tanzania* (England: Ashgate, 2014), 93.

¹⁰⁹ Extractive Industries Transparency Initiative, *Tanzania Extractive Industries Transparency Initiative Report on the TEITI Reconciliation for the Period 1st July 2008 to 30th June 2009* (England: Hart Group, BDO East Africa, 2011), 6, <http://data.revenuwatich.org/eiti/country/tanzania/2009/16769.php>.

¹¹⁰ Energy Charter Secretariat, *Pre-Assessment Report of the Tanzania Energy Sector under the Principles of the International Energy Charter and the Energy Charter Treaty* (Brussels: Energy Charter Secretariat, 2015), 6, http://www.energycharter.org/fileadmin/DocumentsMedia/CONEXO/20150827-Tanzania_Pre-Assessment_Report.pdf.

strategy gained legitimacy with Mozambique’s export partners through compliance with EITI reporting standards.¹¹¹

Tanzania is not yet the target of global energy importers because the natural gas sub-sector is still in development. The GoT has used the influence of the United States to format policies to improve energy sector management while it directed Chinese investment toward infrastructure projects. China is very active in energy sector development in Tanzania, with the intention to export natural gas as soon as possible.¹¹² In the meantime, the Chinese infrastructure investment projects have complemented the technical assistance strategies of IGOs and the United States.¹¹³ The elites have been able to channel the varying interests from international actors toward enhancing domestic energy security.

The GoT’s partnership with the United States was based on domestic energy sector development and technical assistance. The reputation and development status of Tanzania led to its inclusion in the Power Africa Initiative specifically designed to enhance Tanzania’s energy sector. The Power Africa Initiative is a six country partnership with the United States aimed at promoting sustainable energy development. Tanzania is one of the six African countries partnered with private sector actors to enhance energy security by harnessing domestic energy resources.¹¹⁴ The technical advice from private sector investment has complemented the capacity building of key institutions.¹¹⁵ The energy sector managers have learned to implement feed-in tariffs and improve power purchase agreements for renewable energy projects, which has helped

¹¹¹ “Mozambique Country Profile,” Extractive Industries Transparency Initiative, accessed August 8, 2015, <https://eiti.org/Mozambique>.

¹¹² David Ledesma, *East Africa Gas— Potential for Export*, OIES Report NG 74 (Oxford: Oxford Institute for Energy Studies, 2013), 2, <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2013/03/NG-74.pdf>; Bruce Jones and David Steven, *The Risk Pivot: Great Powers, International Security, and the Energy Revolution* (Washington, DC: Brookings, 2015), 15, <http://www.brookings.edu/research/books/2014/risk-pivot>.

¹¹³ Daniel Large, “Beyond ‘Dragon in the Bush’: The Study of China-Africa Relations,” *African Affairs* 107, no. 426 (2008): 60, doi: 10.1093/afraf/adm069.

¹¹⁴ “What Power Africa Means for Tanzania,” United States Agency for International Development, accessed August 23, 2015, <https://www.usaid.gov/powerafrica/partners/african-governments/tanzania>.

¹¹⁵ Ibid.

diversify the domestic energy supply and increase affordable access to electricity to more of the population.¹¹⁶ The Power Africa Initiative coincides with Tanzania's economic strategy and electrification goals.

The Millennium Challenge Corporation Compact has reinforced the GoT's inward energy focus. Tanzania signed a Millennium Challenge Corporation Compact in 2008 that focused on the energy, transport, and water sectors. The \$698M U.S. compact targeted weaknesses in the existing infrastructure. From 2008 to 2013, the USG, GoT, and 10 U.S. companies partnered to build and update power generation facilities and transmission lines and completed a submarine transmission line from mainland Tanzania to Zanzibar.¹¹⁷ The grid extension projects allowed increased connection rates to households, businesses, and industry consumers. Upon the successful completion of the MCC Compact, the long-term impacts from the partnership are expected to be significant. Specifically, the enhanced power capacity and transmission lines are expected to make electricity distribution more reliable and efficient.

Both Tanzania and Mozambique were influenced by the international community. One of the biggest differences was the pressure exerted by neighboring countries. Where Mozambique experienced high demand from its SADC partners for energy, Tanzania was not pressured to export energy. Tanzania is currently still an electricity importer, so there is only limited regional coordination among its East African Community (EAC) partners. The lack of regional demand has allowed the GoT to establish development corridors oriented toward domestic development. The corridors were mapped near the perimeter of the country where most of the urban development is located and accessible to future regional linkages.¹¹⁸ A long-term goal for Tanzania is to become a regional natural gas supplier to further the EAC agenda to upgrade to modern energy sources in rural

¹¹⁶ Msyani, "Energy Sector in Tanzania," slide 15.

¹¹⁷ Millennium Challenge Corporation, "MCC, 10 American Companies."

¹¹⁸ United Republic of Tanzania, *Integrated Industrial Development Strategy 2025* (Tanzania: Ministry of Industry and Trade, 2011): 43, http://www.tzdp.org.tz/fileadmin/_migrated/content_uploads/IIDS_Main_Report.pdf.

communities.¹¹⁹ For the current time, Tanzania has maintained its development strategy course and will wait for the domestic energy market to develop before making poor investment decisions.

Tanzania's international partners and external relationships were not direct causes of the GoT's choice of an inward energy sector development strategy. The relationships, however, reinforced the interests of the political elite and followed the economic strategy. Despite the necessity for foreign and private investment, the GoT sent a clear message that domestic energy was the priority.¹²⁰ While requiring higher royalties and implementing local content policies may be a detractor for private, foreign investors, Tanzania can be assured the global demand for natural gas will continue to attract investors.

E. CONCLUSION

The enhanced energy security in Tanzania was a result of the government's decision to utilize the country's energy resources for domestic consumption. The complex explanation of why the GoT chose to develop the domestic energy sector instead of focusing on collecting export revenue includes a combination of factors; the first factor being the cohesiveness of decision makers. In Tanzania's case, the consensus was to focus inward while Mozambique's government chose to prioritize natural gas export. Another factor, which coincided with the consistency of the programmatic elites, was the economic strategy that promoted local energy sector entrepreneurs. Small and medium-sized enterprises had access to financing and resources through protective policies in the market-oriented economy. Finally, the domestic policies focused on the domestic energy sector development were aligned with the country's key partners. The external pressure to export is somewhat limited at the moment, which is allowing Tanzania to focus on internal distribution.

¹¹⁹ Paul Kirai and Mark Hankins, *Regional Strategy on Scaling-up Access to Modern Energy Services in the East African Community* (Tanzania: East African Community, 2009), 4, http://www.eac.int/energy/index.php?option=com_docman&task=doc_download&gid=14&Itemid=70.

¹²⁰ Norton Rose Fulbright, "Tanzania Natural Gas Policy."

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III. MOZAMBIQUE

A. INTRODUCTION

Like Tanzania, access to reliable electricity has always been a challenge in Mozambique. Today, Mozambique is being forced to the forefront of an emerging global energy market. Recent discoveries of natural gas are presenting the government and people of Mozambique with an opportunity to secure not only access to affordable energy but also an opportunity to increase GDP through the export of natural gas. Many of the current energy distribution issues are rooted in the political competition between Mozambique Liberation Front (FRELIMO) and Mozambique National Resistance (RENAMO) and the influence of strong external actors in the decision-making process. This chapter argues that Mozambique's strategy to export natural gas over developing the country's domestic energy sector was a result of the dominance of FRELIMO's political elites, an economic strategy that favored foreign export enterprises, and the significant influence of South Africa in energy sector policy formation. In comparison, the GoT established an inward focused energy strategy because of a cohesive group of elites that prioritized domestic energy supply rather than the export of energy. Additionally, where Mozambique's government was pressured to export energy by influential international entities, Tanzania's government chose to partner with external actors that facilitated the development of the domestic energy sector. The following sections will address the historical and political context of energy resource development, Mozambique's economic strategy that guided the energy sector, and the external relationships that affected the decisions of Mozambique's policy makers.

B. HISTORICAL AND POLITICAL CONTEXT OF ENERGY SECTOR DEVELOPMENT

Mozambique's export-oriented energy sector has roots in pre-independence agreements between Portugal and South Africa. Since independence, the violent tensions between FRELIMO and RENAMO, which have continued after the civil war, have led to competition over access to energy resources. What has resulted is the use of energy as a political tool to consolidate the political power of FRELIMO. The financial benefits from

the export of energy and the ability to exclude opposition supporters have encouraged decision makers to follow an export-led strategy.

The most recent discoveries of natural gas came during a renewed period of political tension between FRELIMO and RENAMO. The natural gas discoveries further entrenched the political competition through the elite fight over the ability to influence the decisions on how the country should utilize the resources. FRELIMO managed to restructure the party to consolidate its power around the new resources based on the growth potential from natural gas revenue.¹²¹ Tensions between the dominant parties lend to the strategy to export resources. In Mozambique FRELIMO's control of the resources allowed the party elite to selectively exclude opposition supporters and retain personal benefits from their privileged access to energy resources.¹²²

Distribution of services as a reward for party loyalty is a common trend in Mozambique. The funding of domestic infrastructure and plans for energy distribution fall along political lines, and ultimately the distribution of services is a reward for political support. For regions supporting opposition parties, protests have often taken the form of avoiding electricity payment.¹²³ At the national level, RENAMO and the Mozambique Democratic Movement (MDM) elites negotiated resource contracts outside official channels to gain access to resources and reduced FRELIMO's monopoly control

¹²¹ Ichumile Gqada, *A Boom for Whom? Mozambique's Natural Gas and the New Development Opportunity*, SAIIA Occasional Paper No. 151 (Johannesburg: South Africa Institute of International Affairs, 2013), 7, <http://www.saiia.org.za/occasional-papers/a-boom-for-whom-mozambiques-natural-gas-and-the-new-development-opportunity>; Francesca Bruschi, "Mozambique at a Turning Point: From Aid Dependence to Development Effectiveness?" *GREAT Insights* 1, no. 10 (December 2012): 9, <http://ecdpm.org/wp-content/uploads/2013/11/GREAT-Insights-1-10-Africa-Turning-Point-Case-Mozambique-2012.pdf>.

¹²² M. Anne Pitcher, *Party Politics and Economic Reform in Africa's Democracies* (Cambridge, NY: Cambridge Univ. Press, 2012), 167–68; Lars Buur, "The Development of Natural Resource Linkages in Mozambique: The Ruling Elite Capture of New Economic Opportunities," Working Paper 2014:03 (Danish Institute for International Studies, 2014), 4, <https://www.ciaonet.org/attachments/24539/uploads>.

¹²³ Jocelyn Alexander, "The Local State in Post-War Mozambique: Political Practice and Ideas about Authority," *Africa: Journal of the International African Institute* 67, no. 1 (1997): 12, ProQuest (213645777).

over the energy sector development.¹²⁴ What has resulted through the competition is “partisan sector development.”¹²⁵

The cohesiveness of the state elite across political parties was a critical factor in shaping Tanzania’s energy development strategy, and the lack of cohesiveness in Mozambique was equally significant in the government’s choice to export energy.¹²⁶ Unlike the GoT, the GoM does not have a consensus between or among political parties on how to develop the energy sector. There was further dissent within FRELIMO on which development strategy to implement.¹²⁷ Many of the party elites were (and still are) personally invested in energy projects or were stakeholders in extractive industries, which allowed the elites to form policies that served their personal interests without having to respond to social pressure.¹²⁸

Another factor that shaped Mozambique’s outward focused strategy was the influence of the executive in policy formation. In Tanzania the executive’s role in energy sector was limited to appointing the Minister of Energy and Minerals, and the president was also prohibited from allocating contracts since investment contracts are formally processed through the Tanzania Investment Center.¹²⁹ Mozambique’s presidents have a legacy of direct personal intervention that affected the trajectory of the country’s development. Appointing cabinet members as a reward for political loyalty was also common. In the instance of President Guebuza, he replaced experienced technocrats that were moving toward experienced-based policy reform and reestablished the dominance

¹²⁴ Alexander, “The Local State in Post-War,” 14.

¹²⁵ Pitcher, *Party Politics*, 185.

¹²⁶ Haggard, *Pathways from the Periphery*, 43.

¹²⁷ Sumich, “Party and the State,” 696.

¹²⁸ Carrie Manning, “Political Tensions Threaten Mozambique’s Tenuous Peace,” *World Politics Review*, January 21, 2016, <http://www.worldpoliticsreview.com/articles/17725/political-tensions-threaten-mozambique-s-tenuous-peace>; Haggard, *Pathways from the Periphery*, 43.

¹²⁹ Daniel Marari, “Consolidating Democracy in Tanzania: Presidential Powers Under the Proposed Constitution,” *Constitution Net*, 17 June 17, 2015, <http://www.constitutionnet.org/news/consolidating-democracy-tanzania-presidential-powers-under-proposed-constitution>; “About TIC,” Tanzania Investment Centre, accessed August 10, 2015, <http://www.tic.co.tz/Team?l=en>.

of political elites in the decision making and policy development process.¹³⁰ The appointees were often long-time party loyalists with limited experience in energy sector management. The political appointees tend to pass legislation to protect the power of the executive and their link to the president's favor.¹³¹ Family members and trusted advisors to previous presidents are still primary stakeholders in various sub-sectors associated with Mozambique's energy sector development.¹³²

Political and social tensions in Mozambique undermined the development of the domestic energy sector. FRELIMO and decision makers focused on collecting revenue from foreign and private investors in the energy market. Increased FDI and private investment into Mozambique's energy sector enabled the political elite to establish policies that favor energy export and distanced the government from civil society.¹³³ Without strong civil organizations to pressure the GoM to focus on domestic energy security, the decision makers will continue with the export-oriented strategy.¹³⁴ The cross-cutting objectives of the political elite that is evident in Mozambique are indicative of a common cause for policy failure and why governments misuse resources.¹³⁵

C. ECONOMIC STRATEGY

The Government of Mozambique prioritized the export of energy resources, and the export-led strategy was the outcome of the market-orientated reforms and the international energy market signals. In contrast to Tanzania, however, the domestic

¹³⁰ Paulo de Renzio and Joseph Hanlon, "Mozambique: Contested Sovereignty? The Dilemmas of Aid Dependence," in *The Politics of Aid: African Strategies for Dealing with Donors*, ed. Lindsay Whitfield (New York: Oxford Univ. Press, 2009), 237; Macuane, "Economic and Political Liberalization," 9.

¹³¹ Bjørn-Erik Leerberg and Frode Vareberg, "Mozambique Revises Its Petroleum Legal Framework in Light of the Giant Offshore Discoveries," Simonsen Vogt Wiig, February 6, 2014, 6, <http://svw.no/contentassets/e8e0bb6f7e4c44048068f8303a1f80ac/mozambique-revises-its-petroleum-legal-framework-in-light-of-the-giant-offshore-discoveries.pdf>.

¹³² Buur, "Development of Natural Resource," 14; "Frelimo Will Win, But Real Change Can Follow Mozambique Elections," *African Energy*, September 26, 2014, <http://www.africa-energy.com/frelimo-will-win-but-real-change-can-follow-mozambique-elections>.

¹³³ Alexander, "Local State in Post-War," 16.

¹³⁴ Macuane, "Economic and Political Liberalization," 21.

¹³⁵ Ascher, *Why Governments Waste*, 262.

energy sector of Mozambique has always been export-oriented. The abundance of energy resources located in Mozambique put the energy sector at the center of the development decisions.¹³⁶ The GoM's privatization process favored foreign investors over domestic energy sector entrepreneurs, which increased generation capacity but did not enhance domestic energy security. Foreign investors were attracted to the abundance of resources as well as the ability to gain influence in policy decisions through the direct negotiating with competing political elites.

After economic crisis and a prolonged civil war that ended in 1992, Mozambique implemented policies to reform a socialist economic structure into a market-oriented economy. The Cahora Bassa Dam, an independent power producer (IPP), was the foundation of the export orientation of the country's energy sector.¹³⁷ The reforms that came in the 1980s and 1990s reopened the energy sector, and the GoM's response was to favor mega projects to rapidly develop the energy sector. The limited financial capability of the state and local entrepreneurs led to further incentives to attract large foreign investors to fund the mega projects.¹³⁸ In contrast, the GoT has taken a stance to encourage local small and medium sized enterprise involvement in the development of the energy sector.¹³⁹ Whether inward or outward-oriented, according to Haggard, once a strategy is chosen and entrenched it is difficult to adjust course.¹⁴⁰

¹³⁶ Anne Frühauf, *Mozambique's LNG Revolution: A Political Risk Outlook for the Rovuma LNG Ventures*, OIES Paper NG 86 (United Kingdom: Oxford Institute for Energy Studies, 2014), 16, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/04/NG-86.pdf>; Joseph Hanlon and Marcelo Mosse, "Mozambique's Elite— Finding its Way in a Globalized World and Returning to Old Development Models," Working Paper No. 2010/105 (United Nations University-World Institute for Development Economics Research, 2010), 12, <http://oro.open.ac.uk/23271/1/wp2010-105%255B1%255D.pdf>.

¹³⁷ Peter Mulder and Jonas Tembe, "Rural Electrification in an Imperfect World: A Case Study From Mozambique," *Energy Policy* 36, no. 8 (August 2008): 2786, doi: 10.1016/j.enpol.2008.05.018.

¹³⁸ Gqada, *A Boom for Whom?* 23.

¹³⁹ Norton Rose Fulbright, "Tanzania Natural Gas Policy."

¹⁴⁰ Haggard, *Pathways from the Periphery*, 31.

The role of the state in Mozambique's business environment focused on the control of resources and the linkages elites have with investors.¹⁴¹ State intervention was more in terms of informal networks and negotiations with key actors than protectionist reforms.¹⁴² Closely related to the political structure that frames the overall development strategy, the political competition of elites has shaped the investment climate. The president has the ability to award contracts without vetting, and political elites took advantage of investment information that is not accessible by many local investors.¹⁴³ Liberalization reforms have not improved competition or spurred domestic energy sector development as anticipated. The reforms have enabled the political elites to gain personal wealth, which perpetuated their commitment to export-led policies.¹⁴⁴

Unlike Tanzania's privatization strategy that promoted and protected SMEs in the energy sector, Mozambique's privatization process did not favor local entrepreneurs.¹⁴⁵ Investment legislation and the Investment Promotion Center (CPI) were designed to facilitate and standardize the investment process, but the vagueness of the law permitted the CPI to prioritize foreign investors when it processed business licenses.¹⁴⁶ The privatization process in Mozambique has strengthened the state by consolidating support through awarding party loyalists with contracts associated with energy sector development.¹⁴⁷ Instead of encouraging private investment in the distribution of energy, the GoM has maintained a centralized control of national energy companies, Empresa

¹⁴¹ "Mozambique's Elections: Boom and Ballot," *Economist*, October 11, 2014, <http://www.economist.com/news/middle-east-and-africa/21623794-political-tension-persists-fast-growing-economy-boom-and-ballot>.

¹⁴² Giovanni M. Carbone, "Continuidade na Renovação? Ten Years of Multiparty Politics in Mozambique: Roots, Evolution and Stabilisation of the Frelimo-Renamo Party System," *Journal of Modern African Studies* 43, no. 3 (September 2005): 437, doi: 10.1017/S0022278X05001035; Sumich, "Party and the State," 680.

¹⁴³ Organization for Economic Cooperation and Development (OCED), *OECD Investment Policy Reviews: Mozambique* (N.P.: Organization for Economic Cooperation and Development, 2013), 4, <https://www.oecd.org/daf/inv/investment-policy/IPR-Mozambique-Oct2013-Summary.pdf>.

¹⁴⁴ Macuane, "Economic and Political Liberalization," 26.

¹⁴⁵ Barnes and Floor, "Rural Energy in Developing Countries," 497.

¹⁴⁶ OECD, *OECD Investment Policy Reviews*, 4.

¹⁴⁷ Pitcher, *Party Politics*, 26.

Nacional de Hidrocarbonetos (ENH) and Electricidade de Mocambique (EdM).¹⁴⁸ Keeping the electricity sub-sector nationalized and providing foreign companies with access to informal networks in the natural gas sub-sector are ways the GoM advanced the export-oriented agenda.¹⁴⁹

Within the natural gas sub-sector, the relative inexperience of ENH in managing the sector enabled international actors to exploit Mozambique's resources. Established in 1980, ENH has been a political liaison in the energy sector that acts as the primary oil and natural gas advisor to the GoM while maintaining a 10% stake in every natural gas related project.¹⁵⁰ One can argue that ENH's stake in profits influenced its policy guidance to the GoM. Compared to Tanzania where the production sharing agreements (PSAs) require 60% royalties and ensure domestic supply is fulfilled prior to export, Mozambique has yet to renegotiate existing natural gas contracts or implement a standard natural gas PSA.¹⁵¹

The government's promotion of energy sector mega projects catered to foreign investors that were interested in exporting the energy produced once the projects were complete. Mozambique's infant energy sector is dependent on private industry for extractive technology and innovation.¹⁵² In return for technology transfer and skills training, the GoM provided incentives for foreign investors in the form of long-term

¹⁴⁸ Alice Dinerman, "Independence Redux in Postsocialist Mozambique," *Revista Relações Internacionais* 15 (September 2007): 17, http://www.ipri.pt/publicacoes/revista_ri/pdf/Alice-Final%20a.pdf.

¹⁴⁹ Pitcher, *Party Politics*, 146; Sumich, "Party and the State," 696.

¹⁵⁰ Paul Jourdan, *The Minerals Industry of Mozambique*, IMR Report No. 83 (Zimbabwe: Institute of Mining Research, University of Zimbabwe, 1986), 39, <http://opendocs.ids.ac.uk/opendocs/bistream/handle/123456789/4718/Jourdan,%20Paul%20%20IMR%20Report%2083.pdf?sequence=1>; Andrew England, "Mozambique Strives to Get Liquefied Natural Gas Projects Online," *Financial Times*, November 23, 2015, <http://www.ft.com/intl/cms/s/0/27c165a6-91d3-11e5-bd82-c1fb87bef7af.html>.

¹⁵¹ Deloitte, *Oil and Gas Taxation in Tanzania* (London: Deloitte, 2016), 4, <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/gx-er-oil-and-gas-tax-guide-tanzania.pdf>; Leerberg and Vareberg, "Mozambique Revises Its Petroleum," 6.

¹⁵² Hanlon and Mosse, "Mozambique's Elite," 16.

corporate tax exemptions and privileged access to decision-makers.¹⁵³ The investor initiated any local content provisions, and the GoM had limited legal precedence to hold the foreign companies to the contracts due to the lack of a legal public-private partnership (PPP) framework.¹⁵⁴

Private and foreign actors have an advantage in Mozambique's energy sector that does not guarantee increased domestic energy supply.¹⁵⁵ Since the economic strategy did not foster SME development, there was (and still is) less internal demand to develop the domestic energy supply. Additionally, the GoM did not promote or demand foreign companies to establish linkages with "upstream or downstream" domestic enterprises.¹⁵⁶ The priority to develop export infrastructure combined with the lack of a local content policy favored extractive industry stakeholders. Political elites from all parties have not agreed on local content provisions or the role the government should take to protect the domestic market.¹⁵⁷ Individual contract negotiations can incorporate local content requirements, but this is not mandatory.¹⁵⁸

The financial sector also favors energy export projects. Since Mozambique has not been as successful in stabilizing its national banking structure like Tanzania, most investments are managed through international financial institutions (IFIs). The IFIs are more likely to lend to the large corporations that invest in the mega projects promoted by

¹⁵³ Boaventura Chongo Cuamba, Amílcar dos Santos Cipriano, and Ruth Henrique Jaime Turatsinze, *Investment Incentives for Renewable Energy in Southern Africa: The Case of Mozambique* (Mozambique: International Institute for Sustainable Development, 2013), 16–17, http://www.iisd.org/pdf/2013/investment_%20incentives_%20mozambique.pdf.

¹⁵⁴ Ronald Fischer and Vasco Nhabinde, "Assessment of Public-Private Partnerships in Mozambique: IGC Report," *TradeMark Southern Africa*, December 21, 2012, <http://www.trademarksa.org/news/assessment-public-private-partnerships-mozambique-igc-report>.

¹⁵⁵ Alex Vines, et al., *Mozambique to 2018: Managers, Mediators and Magnates* (London: Royal Institute of International Affairs, 2015), 2, https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150622Mozambique2018VinesThompsonKirkJensenAzevedoHarman.pdf.

¹⁵⁶ Pitcher, *Party Politics*, 147.

¹⁵⁷ Zachary Kaplan, *Policy Options for Strengthening Local Content in Mozambique* (Washington, DC: United States Agency for International Development, 2013), 1, <http://www.speed-program.com/wp-content/uploads/2013/10/2013-SPEED-Report-010-Policy-Options-for-Strengthening-Local-Content-in-Mozambique-EN.pdf>.

¹⁵⁸ *Ibid.*, 3.

the GoM. Much of the South African investment flows increased lending that favored projects that linked to energy projects supporting export to South Africa or South African owned enterprises. The significant role South African banks had in shaping investment flows will be addressed further in the next section.¹⁵⁹

The government's incentive to push mega projects and foreign investment stemmed from the need for quick revenue to pay for necessary infrastructure. The GoM recently purchased the remaining shares of HCB, the country's largest power generation plant, from Portugal.¹⁶⁰ The \$950 million U.S. price required the government to promote energy plans that promoted short-term financial gains.¹⁶¹ Providing investment incentives in the natural gas sub-sector facilitated the increase in energy investors. The rapid influx of foreign direct investment (FDI) into the extractive sector has benefited the commercial production of natural gas, which has reduced the government's dependence on the domestic tax base for state revenue.¹⁶²

Mozambique's energy sector liberalization did not follow the development patterns of NICs. The common development path, even for countries that focused on export-led growth, involved initial stages of import substitution and established state involvement in the economy to protect the domestic market. The initial stages were typically periods of increased investment from foreign investors but the government limited the influence of external actors in policy development.¹⁶³ The GoM diverged

¹⁵⁹ Carlos Nuno Castel-Branco, "What Is the Experience and Impact of South African Trade and Investment on Growth and Development of Host Economics?" paper developed from a presentation at the Conference on Stability, Poverty Reduction and South African Trade and Investment in Southern Africa (Maputo: Mozambique, 2004), 24–25, <http://www.iese.ac.mz/lib/cncb/CCA-AI-2004-Impact-of-SA-trade-and-FDI.pdf>.

¹⁶⁰ Amilcar Cipriano, Colin Waugh, and Mathinkizana Matos, *The Electricity Sector in Mozambique: An Analysis of the Power Crisis and Its Impact on the Business Environment* (Washington, DC: United States Agency for International Development, 2015), 11, <http://www.speed-program.com/wp-content/uploads/2015/03/2014-SPEED-Report-042-Analysis-of-the-Power-Crisis-and-its-Impact-on-the-Business-Environment-EN-04032015.pdf>; Allen Isaacman, "Displaced People, Displaced Energy, and Displaced Memories: The Case of Cahora Bassa, 1970–2004," *The International Journal of African Historical Studies* 38, no. 2 (2005): 221–22, ProQuest (229629003).

¹⁶¹ Dinerman, "Independence Redux," 17; Figueiredo Araújo, "Mozambique Reclaims Cahora Bassa," *AllAfrica*, November 15, 2005, <http://allafrica.com/stories/200511150055.html>.

¹⁶² Frühauf, *Mozambique's LNG Revolution*, 9–10.

¹⁶³ Haggard, *Pathways from the Periphery*, 20.

from the mold since international companies have significant influence with political elites, and the policy influence of external actors has resulted in reforms that disadvantaged local SMEs. The GoT took a strategic position by selectively interfering in the natural gas and electricity sub-sectors to protect domestic SMEs and limited the influence of foreign investors. In Mozambique, even the liberalization within the electricity sub-sector benefited outside electricity suppliers. The GoM intended to open the electricity supply market to include ESKOM and the Mozambique Transmission Company (MoTraCo) in Mozambique's energy market. There was little financial incentive for foreign energy suppliers to invest in Mozambique's national grid outside the development corridors that connect Maputo with South Africa. Expanding the domestic grid in Mozambique was (and still is) a risky investment and the only progress in rural energy has been in the purchase of off-grid solar panels and isolated micro-grids.¹⁶⁴

The economic strategy of the GoM was a product of the need for political control of resources that was conducive to the export of energy. Liberalizing the energy market has allowed the political elite to strengthen their business networks with foreign investors. The privatization process in Mozambique favored investment in mega projects that not only sought foreign investors but also excluded the participation of local SMEs in the development of the country's domestic energy sector. Institutional reforms were, therefore, more likely to include beneficial aspects to exporters. Similar to Tanzania, Mozambique needed foreign investment for necessary energy sector developments, but the main difference was how Mozambique has chosen to prioritize external market demand over domestic energy security.

D. INTERNATIONAL RELATIONSHIPS

In Mozambique, the export of natural resources was a combined result of decisions made by competing political elites and the pressure from external agents seeking energy resources. The fractured nature of the elites and their need to control

¹⁶⁴ Mark Cockburn and Caroline Low, "Output-Based Aid in Mozambique: Private Electricity Operator Connects Rural Households," *OBA Approaches*, no. 003 (January 2005): 1, http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2005/04/18/000090341_20050418135019/Rendered/PDF/320600OBAApproaches1MozambiqueElectricity.pdf.

access to energy resources have led the GoM to align energy policies with external actors because the political support and revenue received made the government less reliant on the public to stay in power. Similar to Tanzania, the GoM has fostered relations with international organizations, private investors, and global energy consumers that aligned with political priorities. Where the two countries varied is in the nature of international pressure on the policy decisions of the government. The GoT did not have a history of being an energy exporter and, therefore, the elites had the ability to choose partners that facilitated the development of the domestic energy sector. Mozambique's history of energy export provided limited incentive for the elites to resist the influence of its international partners, like South Africa.¹⁶⁵ The GoM selected which donor strategy recommendations coincided with the preferences of the political elite.¹⁶⁶ While the policy priorities aligned, the interests did not coincide with enhancing domestic energy security in Mozambique in the near-term.¹⁶⁷ This section will address how international relationships affected how the GoM chose to utilize its energy resources.

Mozambique's resources attract investors and donors of all types. South Africa's demand and influence in the GoM's policy choices has been consistent, both the influence and aid from other international actors have varied since Mozambique's independence. In the past the GoM has been receptive to the conditions set by donors. The current trend of bilateral aid is to encourage private industry to provide investment and technical assistance to energy sector entities. With the export potential in the abundance of energy resources in Mozambique, the private industries have encouraged Mozambique's decision makers to expedite projects that will facilitate export of resources.¹⁶⁸ Mozambique's key actors in the energy sector did not have the benefit of getting energy sector management assistance through the Power Africa Initiative like in Tanzania.

¹⁶⁵ Macuane, "Economic and Political Liberalization," 14.

¹⁶⁶ *Ibid.*, 30.

¹⁶⁷ Ascher, *Why Governments Waste*, 38.

¹⁶⁸ Gqada, *A Boom for Whom?* 11.

Much like Tanzania, Mozambique has a long history of energy insecurity. A primary difference was that from the beginning, Mozambique's energy sector was designed to export energy. The first major energy project was the Cahora Bassa Dam (HCB), contracted by the Portuguese government in 1969 to export electricity to South Africa. Despite being constructed in the northwest region of Mozambique, the transmission lines transverse the country and link directly to distribution stations in South Africa. Until 2007, Portugal retained over 60% control of HCB and maintained the bilateral agreement with South Africa's energy corporation, ESKOM.¹⁶⁹ The long-term agreement prohibited the distribution of HCB generated electricity to Mozambique's national grid. FRELIMO elites also shared the profits with Portugal and fostered partnerships that both assured FRELIMO's control of energy resources, and also guaranteed that FRELIMO would risk profits by abrogating this agreement that provided no energy for domestic consumption.¹⁷⁰

Mozambique has a large, influential energy consumer sitting across its southern border.¹⁷¹ South Africa has deeply rooted political and economic linkages in Mozambique's energy sector. Mozambique's political parties have fostered individual relationships with various entities in South Africa. FRELIMO has sought to maintain business coalitions with South African investors to consolidate FRELIMO's control over access to energy. RENAMO's dealings focused on negotiating contracts that increased their political support in the Southern Africa region.¹⁷² In general, the legacy of trade relations has resulted in an unbalanced trade dynamic between the two countries in favor

¹⁶⁹ Sarah Evans, "Will the Cahora Bassa Dam Deal Still Be Renegotiated?" *Mail and Guardian*, February 17, 2015, <http://mg.co.za/article/2015-02-17-will-the-cahora-bassa-dam-deal-still-be-renegotiated>; "Portugal Deal on Mozambique's Cahora Bassa Dam," *BBC News*, April 9, 2012, <http://www.bbc.com/news/world-africa-17658326>.

¹⁷⁰ Mulder and Tembe, "Rural Electrification," 2786.

¹⁷¹ Cambridge Economic Policy Associates, *Mobilising Finance for Infrastructure: Mozambique Country Case Study* (London: Cambridge Economic Policy Associates, 2015), 19, [http://www.cepa.co.uk/corelibs/download.class.php?source=PB&fileName=sysingdocs/docs/DFID-Mobilising-Finance-for-Infrastructure-Mozambique-Case-Study-2015-_pb142_9.pdf&file=DFID%20-%20Mobilising%20Finance%20for%20Infrastructure%20%20Mozambique%20Case%20Study%20\(2015\).pdf](http://www.cepa.co.uk/corelibs/download.class.php?source=PB&fileName=sysingdocs/docs/DFID-Mobilising-Finance-for-Infrastructure-Mozambique-Case-Study-2015-_pb142_9.pdf&file=DFID%20-%20Mobilising%20Finance%20for%20Infrastructure%20%20Mozambique%20Case%20Study%20(2015).pdf); Castel-Branco, "Experience and Impact," 10.

¹⁷² Dinerman, "Independence Redux," 3.

of South Africa.¹⁷³ As part of the long-term bilateral agreement with ESKOM, Mozambican electricity is transmitted to South Africa before connecting to distribution lines back into Mozambique. Mozambique electricity customers are then required to pay import fees to ESKOM for electricity generated in Mozambique.¹⁷⁴ In the current economic strategy, SMEs in Mozambique are at a disadvantage when trying to compete with foreign industry.

The linkages with South Africa's energy companies influenced how the GoM developed the country's energy sector development strategy. ESKOM has a long-term bilateral agreement with Mozambique for the export of electricity from the HCB to South Africa, which was an extension of the original agreement ESKOM signed with Portugal. South African businesses are valuable energy consumers within Mozambique, but businesses like Mozal have taken advantage of its close ties with the GoM. Mozal is a South African owned enterprise that runs one of Mozambique's main revenue sources, the Mozal aluminum smelter. As part of the HCB agreement, the Mozal aluminum smelter was contracted to import electricity through ESKOM. The smelter consumes nearly 900MW of domestically generated electricity, and the smelter's energy demand and reliable revenue has caused the GoM to prioritize Mozal's energy demand over domestic demand.¹⁷⁵ South Africa's national oil company, Sasol, has a monopoly share of natural gas extracted from the Pande and Temane fields, which was granted to it by the

¹⁷³ Castel-Branco, "Experience and Impact," 8.

¹⁷⁴ Christoffer Sonne-Schmidt, Channing Arndt, and Monica Magaua, "Contribution of Mega-Projects to GDP in Mozambique," paper presented at the II Conference of the Institute of Social and Economic Studies, Maputo, Mozambique, April 22–23, 2009, 11, http://www.iese.ac.mz/lib/publication/II_conf/GrupoI/Contribuicao_megaprojectos_pib_C.Sonne_Schmidt_et_al.pdf; Barry Munslow and Phil O'Keefe, "Energy and the Southern African Regional Confrontation," *Third World Quarterly* 6, no. 1 (January 1984): 38, JSTOR (3991225).

¹⁷⁵ Castel-Branco, "Experience and Impact," 6–7, 14; C. A. Cuvilas, R. Jirjis, and C. Lucas, "Energy Situation in Mozambique: A Review," *Renewable and Sustainable Energy Reviews* 14, no. 7 (September 2010): 2144, doi: 10.1016/j.rser.2010.02.002.

Government of Mozambique.¹⁷⁶ Only in the long-term objectives does enhancing Mozambique's energy sector occur in the agreement with Sasol.¹⁷⁷

Adding to South Africa's influence and pressure on Mozambique to export energy is the growing significance of the Southern African Power Pool (SAPP). The SAPP is an intergovernmental organization where participating members operate on a memorandum of understanding between member countries to provide energy for regional distribution. The primary objective of the SAPP, according to the SAPP's official vision is to "Provide a forum for the development of a world class, robust, safe, efficient, reliable and stable interconnected electrical system in the southern African region."¹⁷⁸ As the primary regional actor, it coordinates an integrated power system and provides a regional solution to energy insecurity.¹⁷⁹ The expectation is that a regional electricity market will improve competition and establish realistic market signals necessary to enhance domestic energy security within each of the SAPP partners. Under the guidance of SAPP, Mozambique exports energy to power stations supporting the regional grid. After South Africa, Mozambique provides the most electricity to the SAPP, supplying 5% of the power (an installed generating capacity of 2,279MW). At the same time, Mozambique has the lowest percent of domestic electricity access within the SAPP.¹⁸⁰

Without the balanced development of energy sector management and infrastructure development, states like China and South Africa can continue to influence

¹⁷⁶ Albert-Eneas Gakusi, David Sartori, and Joe Asamoah, "Fostering Regional Integration in Africa: Lesson from Sasol Natural Gas Project Between South Africa and Mozambique," *Open Journal of Social Sciences* 3 (2015): 189, doi: 10.4236/jss.2015.310025.

¹⁷⁷ *Ibid.*, 191.

¹⁷⁸ "Vision and Objectives," Southern African Power Pool, accessed February 4, 16, <http://www.sapp.co.zw/index.html>; "Governance," Southern African Power Pool, accessed February 4, 16, <http://www.sapp.co.zw/govenance.html>.

¹⁷⁹ Lawrence Musaba, "The Development of the SAPP Competititve Electricity Market," *Power Engineering Society Inaugrural Conference and Exposition in Africa* (July 2005): 190, doi: 10.1109/PESAFR.2005.1611812.

¹⁸⁰ Nyasha Kaseke and Stephen G. Hosking, "Southern African Power Pool (SAPP) Regional Electricity Generation Crisis and Implications," *African Executive* 333 (September 2011): 3, <http://africanexecutive.com/downloads/Southern%20Africa%20Power.%20Pool%20pdf.pdf>.

the export of energy from Mozambique.¹⁸¹ The lack of a legal framework or governance requirements attached to assistance from private investors also allowed the GoM freedom to maintain its energy development priorities.¹⁸² As private industry assistance increased, Mozambique experienced a decline in official development aid (ODA). The decline meant a reduction in technical assistance for policy reform and a reduction in the ability of states to affect sustainable resource governance.¹⁸³

With the increased activity of IOCs operating in Mozambique, the GoM sought international organization support to promote the legitimacy of its export-oriented policies. Organizations like the World Bank and IMF have provided guidance and recommendations to strengthen the government's energy sector strategy, but the GoM has selectively implemented only the recommendations that advance the country's outward focused agenda. An international benchmark for Mozambique's energy sector came in 2012 when the EITI officially reported Mozambique as an EITI compliant country. Meeting EITI's compliance requirements does provide public awareness of Mozambique's extractive sector by publishing reported revenues, but it also broadcasts the success of the extractive sector to potential investors. The EITI does not favor domestic use or export; the initiative works to enhance extractive sector transparency, which the public can use to hold the government accountable.¹⁸⁴ For the GoM, public awareness and compliance with international standard reinforced the linkages with it foreign investors and made the government less responsive to domestic demand.

The relationships with international actors have encouraged the GoM to continue its export-led strategy to develop the country's energy sector. A key factor was the prominent influence of the state of South Africa and its agents in the energy sector. Unlike Tanzania, the pressure from neighboring countries and participation in the SAPP

¹⁸¹ De Renzio and Hanlon, "Mozambique: Contested Sovereignty?" 234; Frühauf, *Mozambique's LNG Revolution*, 30.

¹⁸² Frühauf, *Mozambique's LNG Revolution*, 29.

¹⁸³ *Ibid.*, 30.

¹⁸⁴ Extractive Industries Transparency Initiative, "Mozambique Country Profile"; "Mozambique," Natural Resource Governance Institute, accessed August 13, 2015, <http://www.resourcegovernance.org/countries/africa/mozambique/overview>.

promoted the export of energy over the development of the domestic energy sector. It also appears that because of the need to control access to energy resources, the government was selective in implementing policy reforms that countered the national development strategy decisions of the central government.

E. CONCLUSION

The Government of Mozambique's response to the country's energy insecurity in light of recent discoveries of energy resources has many factors. Mozambique's energy sector has always been a sector of exploitation and export, which has led to a continued outward-focused development strategy today. Additionally, the continued political tension between FRELIMO and RENAMO has carried over into competition over access and control of energy resources. The deep rooted and at times violent tension encouraged the export of energy in return for revenue and the ability to restrict distribution to regions that support opposition parties. Mozambique's fractionalized elite differed from Tanzania, where there was a consensus among decision makers on how to utilize the country's energy resources to enhance domestic energy security. The competing strategies opened the decision-making process to influence from external actors who had a significant interest in exporting Mozambique's energy resources. South Africa, especially, had significant influence in how the GoM chose to use its energy resource through political and economic pressures to export to the SAPP and South African energy enterprises. The international relationships essentially strengthened the political power of FRELIMO by partnering in energy sector projects that progressed the ruling party's agenda. The combination of political elite competition and the role of international energy investors in Mozambique's energy sector were primary reasons why the GoM did not prioritize the country's abundance of energy resources to supply the national grid.

IV. CONCLUSION

A. INTRODUCTION

Tanzania and Mozambique demonstrate two approaches to energy security. Understanding why a government chose to prioritize domestic supply has policy implications for other resource endowed developing countries. Tanzania's decision makers promoted the domestic use of energy resources to enhance the country's energy security, and the success of the inward-focused energy strategy was a result of consistent and coherent policies that balanced the influence of energy sector elites and private interests. Mozambique's response to its energy insecurity and recent natural gas discoveries presented a case of why developing countries may choose to export energy resources before developing the domestic energy sector, reflecting a different political logic than in Tanzania. The following sections will summarize the significant points of comparison between Tanzania and Mozambique and the energy security implications of choosing an inward- versus outward-focused energy strategy.

B. COMPARATIVE ANALYSIS

There are many factors that influence the energy strategy choice of countries. The following section presents the key factors that were present in the research of the energy sectors of Tanzania and Mozambique.

1. Political Dynamics

The cohesiveness and cohesive nature of elites in Tanzania led the government to establish sub-sector policies that have led the GoT to prioritize domestic energy security. In Mozambique, the fractured elites were unwilling to share access to energy resources, which led the GoM to choose energy export rather than domestic energy sector development. The base framework in Tanzania and Mozambique has been that the ruling party's desire to stay in power was an important factor in the distribution of energy resources. Tanzania's CCM party has historically been inward focused, which may explain its increased appointments of programmatic elites devoted to domestic energy

development.¹⁸⁵ Mozambique's government, on the other hand, was predominantly made up of political elites from FRELIMO and RENAMO that were divided on how to develop the energy sector.¹⁸⁶

Tanzania's dominant party has managed to create cohesion among its political elites. One of the reasons behind the government's consensus to focus on domestic energy supply was the influence of programmatic elites in the decision-making process. In Tanzania, the programmatic elites were committed to the national development objectives and have established consistent policies that resulted in domestic energy sector development. Whereas, Mozambique lacked a strong group of programmatic elites and the president reduced the amount of technocrats appointed to political positions associated with the energy sector. From the research, it appears that the distribution of energy across party lines did not threaten CCM's political power, while in Mozambique it threatened FRELIMO. Distribution of energy as a program objective rather than political reward indicated that CCM did not have to maintain tight control of the energy resources and could afford to share control of the energy resources. Delivering electricity and energy resources to the population, both priorities of the BRN Initiative, gathered public support for the GoT.¹⁸⁷ The public support strengthened the elite's position in government, which is also kept the CCM as the dominant party.¹⁸⁸

Mozambique's decision to focus on export was a direct result of the resource competition between FRELIMO and RENAMO elites. In Mozambique, competing for political power and control of resources became the latest source of political leverage.¹⁸⁹ The GoM lacked cohesion among political elites on how to develop the energy sector, and the individual interests that drove elites to seek to control over access to energy resources also fractured the internal organization of the political parties. What has

¹⁸⁵ Haggard, *Pathways from the Periphery*, 45; Van de Walle, *African Economies*, 154.

¹⁸⁶ Sumich, "Party and the State," 693.

¹⁸⁷ Weinstein, "Politics of Government Expenditures," 54.

¹⁸⁸ United Republic of Tanzania, *Tanzania Big Results Now!* 30.

¹⁸⁹ Gqada, *A Boom for Whom?* 7; Bruschi, "Mozambique at a Turning Point," 9.

occurred because of the competition was a continued reliance on informal networks to secure access to influential energy sector actors.¹⁹⁰ The export of energy resources ensured political elites would remain in power and revenues were directed to ensure the passage of FRELIMO's agenda.

2. Economic Strategy

The influence of the national economic strategy on the government's choice of energy strategy was closely linked to the political factors affecting policy decisions. Going into this study, the expectation was that sub-sector economic policies would align with the macroeconomic strategy. In Tanzania and Mozambique, the macroeconomic strategy was not the direct cause of the government's choice in energy strategy. How each country implemented sub-sector policies did provide an explanation of how the governments chose either an inward or outward-oriented energy strategy. In Tanzania's case, the cohesive elite were able to implement energy policies that aligned with the macroeconomic strategy because of the willingness to share access to energy resources. Mozambique's fractured elite implemented sub-sector policies that countered the market-oriented strategy and made the government susceptible to policy influence from external actors.

Previous studies on economic strategy show that it is difficult for a government to switch priorities once an inward or export-oriented strategy is chosen.¹⁹¹ Following a market-oriented strategy assumes that countries will open economic sectors to private industry to improve competition and efficiency. Correlating the national economic strategies with the energy strategies in Tanzania and Mozambique demonstrated that each country's energy development policies supported the respective inward versus export-orientation of the respective national economic strategy in each country. Therefore, when it came to liberalizing the energy sector, Tanzania and Mozambique differed in their implementation: Tanzania privatized with a strategy that developed the internal energy

¹⁹⁰ Pitcher, *Party Politics*, 167–68; Buur, "Development of Natural Resource," 4.

¹⁹¹ Haggard, *Pathways from the Periphery*, 31.

sector, while Mozambique prioritized the export industry, providing little focus or effort to develop the internal energy sector.

Tanzania's national economic strategy was a byproduct of an inward focus established after independence and international structural adjustments programs. The GoT appeared to take its cues from the success of the Asian NICs with selective state intervention in certain economic sectors.¹⁹² The government's decentralization policies reflected the commitment to the macroeconomic strategy and the incorporation of the energy sector into the national strategy. The GoT's strategic role instead of centralized control of energy sector enterprises removed government from business and gave decision makers incentive to develop policies that would improve efficiency and revenue of the domestic market.¹⁹³ The influence of programmatic elites and cohesion among decision makers may explain why the GoT chose to establish energy sector policies consistent with the inward focus of the national strategy.

In contrast, the GoM sought to directly control the energy industry. This resulted from FRELIMO's unwillingness to give up control of access to resources and revenue from energy exports. This aligned with an overall macroeconomic strategy that promoted export-led growth. Where the framework for a market-oriented economy was to privatize sectors, the government's control of energy enterprises and business contracts counteracted the liberalization goals of the national strategy.¹⁹⁴

The influence of macroeconomic strategy on the choice of energy strategy was not consistent across Tanzania and Mozambique. The expectation going into this study was that decision makers would base energy sector development choices on the national development strategy. There are observed similarities in either an overall inward- or export- focus but not the liberalization of the energy sector in accordance with a market-oriented economy. Maintaining centralized control indicated that the political control of business and resources in Mozambique was a stronger influence on energy strategy

¹⁹² Lall, "Malaysia: Industrial Success," 764.

¹⁹³ Norton Rose Fulbright, "Tanzania Natural Gas Policy."

¹⁹⁴ Dinerman, "Independence Redux," 17.

choice than the objectives of liberalizing the economy and creating a competitive domestic market. Tanzania's decision makers in comparison seemed to establish energy policies based on the national economic strategy. As a result, Tanzania has experienced an increase in domestic investors in the energy sector and implementation of policies that ensured local SMEs had the opportunity to compete with foreign companies.

3. International Relationships

As developing countries, both Tanzania and Mozambique are dependent on foreign investment. Being reliant on international actors opens the respective governments to unbalanced policy influence by those actors.¹⁹⁵ As the research shows, the influence of other states and private enterprises in the policy development process has the potential to reinforce the agenda of the dominant party and the objectives of the national development strategy.¹⁹⁶

Since the 1990s, Tanzania has been closely linked with Western partners that have focused on building energy sector management capabilities and enhancing energy security.¹⁹⁷ The international relationships fostered by the GoT reinforced its decision maker's prioritization of domestic energy supply while they also encouraged public-private partnerships in the development of the energy sector.¹⁹⁸

The policy influence that foreign states and private industry have in the energy policy development process was a significant factor in Mozambique's choice to export energy. Mozambique has a long history of foreign actor influence in the energy sector. Agreements and contracts negotiated prior to independence shaped the energy sector policies. Notably, the GoM's very close ties with the Government of South Africa, several South African energy enterprises, and the SAPP have had significant effects on

¹⁹⁵ Whitfield and Fraser, "Negotiating Aid," 15–16; Whitfield and Fraser, "Introduction: Aid and Sovereignty," xxxix.

¹⁹⁶ Macuane, "Economic and Political Liberalization," 14.

¹⁹⁷ Nord et al., *Tanzania: Story of an African Transition*, 3.

¹⁹⁸ Lofchie, *Political Economy of Tanzania*, 105.

energy sector policies.¹⁹⁹ The relationships between political elites and international actors were important for state revenue and political support. FRELIMO's control of energy resources and reliance on informal negotiations has led to energy policies that continue to support large foreign investors and mega-projects.

C. ENERGY SECTOR IMPLICATIONS

What appears from the comparison of Tanzania and Mozambique is that domestic energy security is a choice influenced by multiple factors. Improving domestic supply requires a commitment of the decision makers to implement coherent and consistent energy policies that prioritize domestic development. Enhancing domestic energy security resulted from governments with a cohesive elite that are focused on using the energy sector to develop broad-based performance legitimacy. For other developing countries, establishing a political environment that produces a cohesive elite focused on sharing control of energy resources may be the biggest obstacle in the process. As long as political parties continue to use the external distribution of energy resources as a means of securing political power, developing countries will restrict domestic energy supply and will focus on seeking revenue from export. Countries like Mozambique will then be more susceptible to the influence of external actors in the energy sector and have less incentive to respond to the needs of the population.

While economic strategy alone cannot explain the choice of energy strategy, it does provide insight into how political dynamics influence economic aspects of energy sector policies. Elites committed to consistent national objectives do not have to rely on negotiating individual access to resources, whereas fractured elites tend to resort to informal processes that undermine domestic energy sector development. The importance of establishing coherent policies such as local content policies (LCPs) for natural gas, public-private partnership (PPP) frameworks, and production sharing agreements (PSAs) ensures the domestic energy sector will benefit from increased foreign investment. The lack of coherent policies is often a source of confusion for the private sector and creates

¹⁹⁹ Cambridge Economic Policy Associates, *Mobilising Finance for Infrastructure*, 19; Castel-Branco, "Experience and Impact," 10; Musaba, "Development of the SAPP," 190.

an unstable investment climate.²⁰⁰ In Tanzania's case, by formalizing the negotiations for energy and limiting the policy influence of international partners, it appears the government is willing to risk losing some foreign investment interest with implementing policies that ensure domestic development. Mozambique's informal negotiations allow private enterprises to take advantage of the government's dependence on investment to set contracts that favor the investor. For developing countries to enhance domestic energy security, governments should establish policies that promote privatization in the energy sector and ensure local SMEs have the opportunity to compete.

Another implication of the choice to prioritize domestic energy supply over export is the benefit of diversifying a country's energy sector. As observed in Tanzania and Mozambique, developing countries tend to depend on a single source of energy for domestic supply. With the discoveries of natural gas, these countries have an opportunity to harness the resources to diversify their energy sectors. Tanzania's choice to prioritize the use of natural gas for domestic consumption has increased access to modern energy for its domestic consumers. The restructuring of the energy sector has also encouraged the development of IPPs that have access to various energy resources. The combination of liberalization in the energy sector and implementation of energy policies has allowed Tanzania to increase efficiency and competition in the energy sector. The progress may be slower than anticipated, but it is proof that aligning domestic policies with international interest can enhance domestic energy security. By comparison, Mozambique is still heavily reliant on hydropower to fuel the economy while exporting natural gas that could also be used to satisfy domestic energy demands.

For Mozambique to enhance the domestic energy security many changes need to occur. One recommendation would be for the GoM to implement sub-sector economic policies that facilitate the development of local SMEs in the energy sector. Improving access to resources and financing to local energy enterprises can increase internal demand for energy supply and provide incentives for the GoM to be more responsive to pressure from the local population to enhance domestic energy security. Another recommendation

²⁰⁰ Kaplan, *Policy Options*, 31.

is for the government to establish a LCP for natural gas. The policy promotes more mutually beneficial natural gas contracts and ensures Mozambique retains energy produced to fulfill the growing domestic energy demand. The earlier recommendations could make the GoM less susceptible to pressures from external actors to export energy and more capable of managing the emerging energy sector.

Tanzania's energy sector is progressing but it is far from meeting the long-term development goals. A key factor in the country's enhanced energy supply is the increase in SMEs in the energy market. The energy projects and IPPs that the local SMEs developed provide resources to small portions of the population, for IPPs to be a long-term solution to enhancing energy security the GoT needs to maintain its programmatic commitment to the domestic energy market. As Tanzania becomes an energy producer, the demand from neighboring countries is expected to increase. Adhering to the economic strategy and energy policies the government implemented can prevent elites from being influenced by the demand of external actors to prioritize the export of energy.

Since the discovery of natural gas can both enhance domestic energy security and foster economic growth, the continued commitment by governments to manage energy sectors is necessary. As the world has observed in other developing countries endowed with energy resources, developing countries with weak energy strategies and institutions are susceptible to the resource curse. Further research needs to be conducted to see the long-term impacts of the energy strategies chosen by Tanzania and Mozambique. If the strategy to prioritize domestic energy supply results in greater long-term enhanced energy security than countries that prioritize export, then one will be better equipped to advise countries seeking to enhance their domestic energy security.

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